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Sporting Goods 2021

The Next Normal for an Industry in Flux

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Sporting Goods 2021

The Next Normal for an Industry in Flux

— Consumer shifts

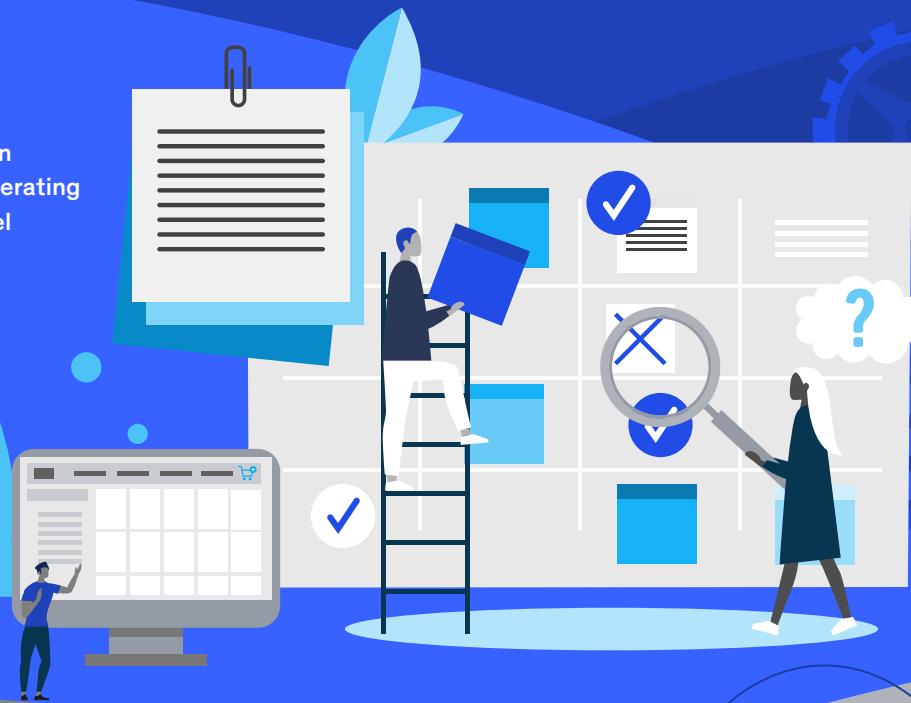


3.
Sustainability —
the COVID-19-accelerated
Next Normal



— Digital leap

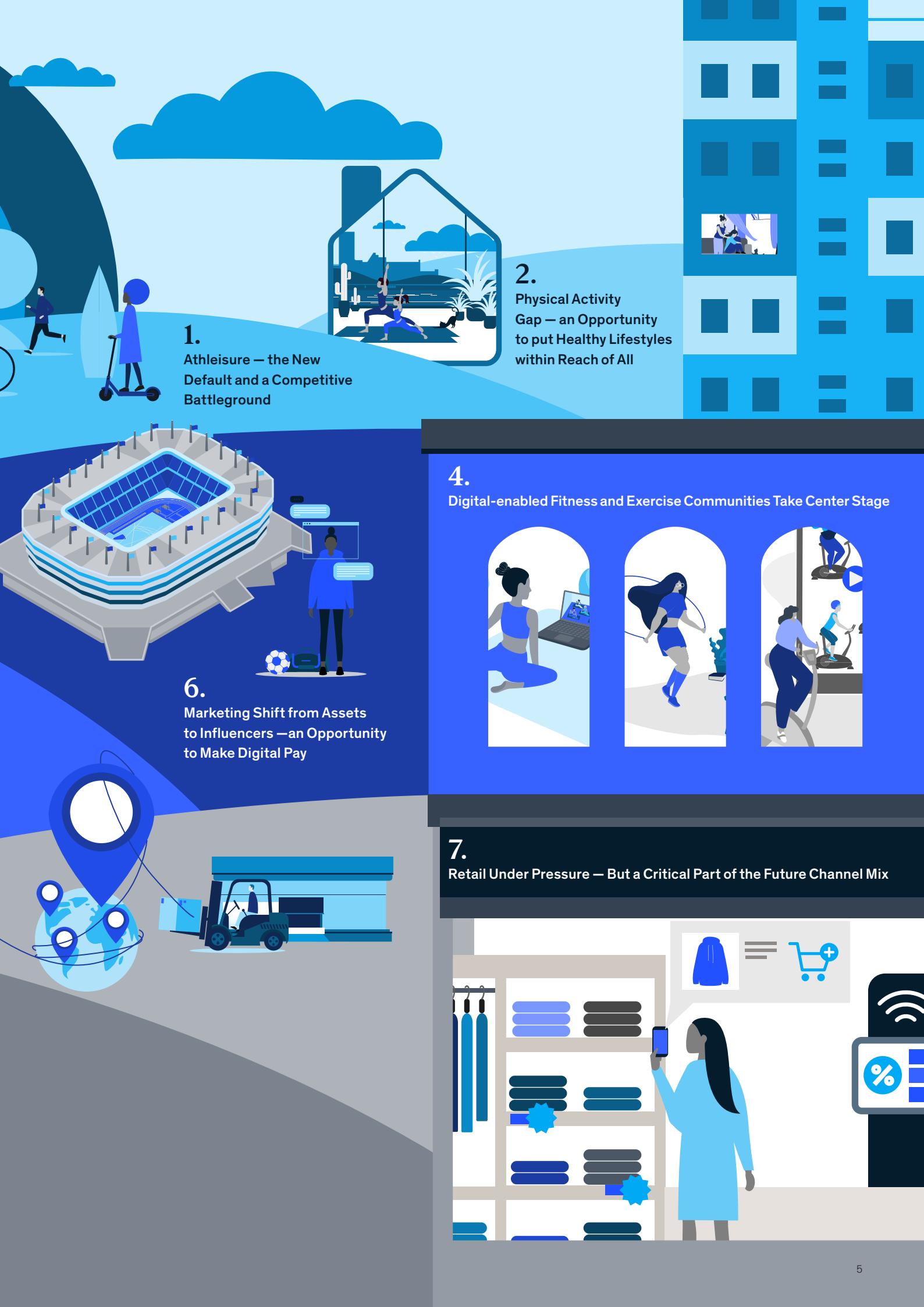
5.
Leap Forward in
Online — Accelerating
Business Model
Shift to DTC



— Industry disruption

8.
Supply Chains —
the Flexibility Imperative
and a Raised Bar
on Agility





1. Athleisure — the New Default and a Competitive Battleground

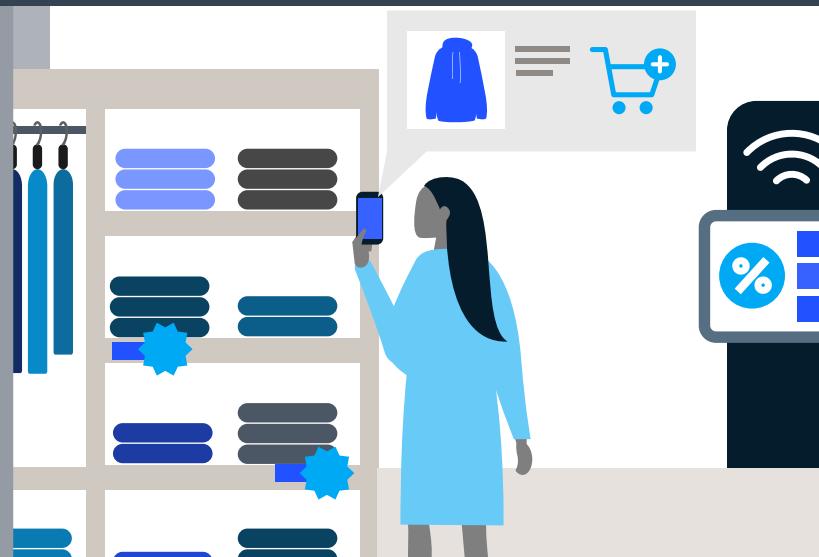
2. Physical Activity Gap — an Opportunity to put Healthy Lifestyles within Reach of All

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4. Digital-enabled Fitness and Exercise Communities Take Center Stage

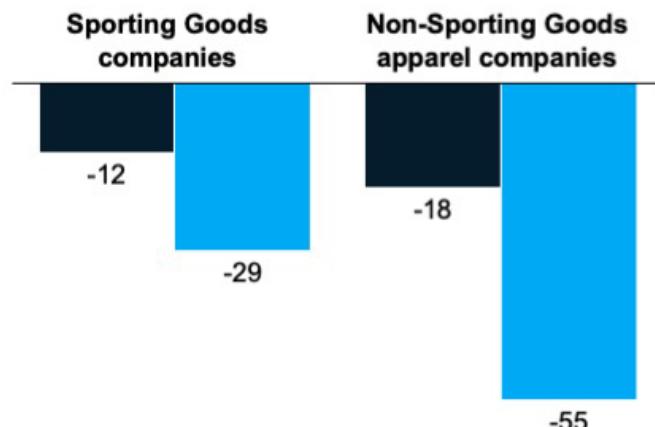


7. Retail Under Pressure — But a Critical Part of the Future Channel Mix



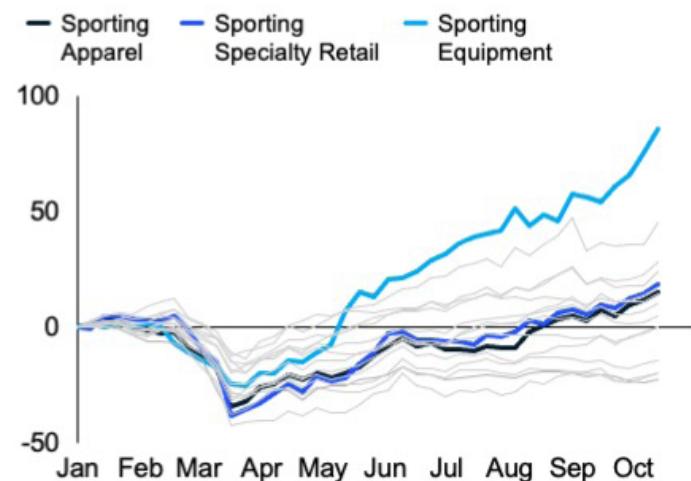
Sporting goods 2020 at a glance

Revenue reduction of Sporting Goods significant but less severe than general apparel sector, H1 '20 vs. '19



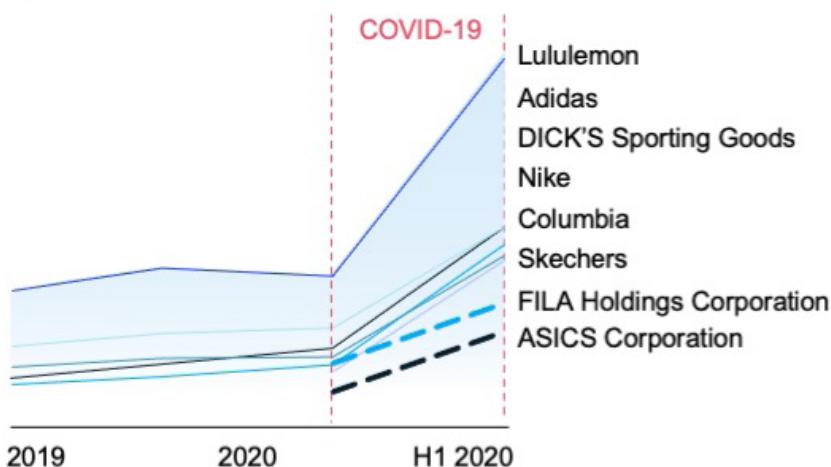
Source: Capital IQ

Total Return to Shareholders of Sporting Goods companies in 2020 positive for equipment, apparel and retail



Source: Corporate Performance Analytics, S&CF Insights

Online share of sales jumped in 2020 to a level expected four years down the road
%



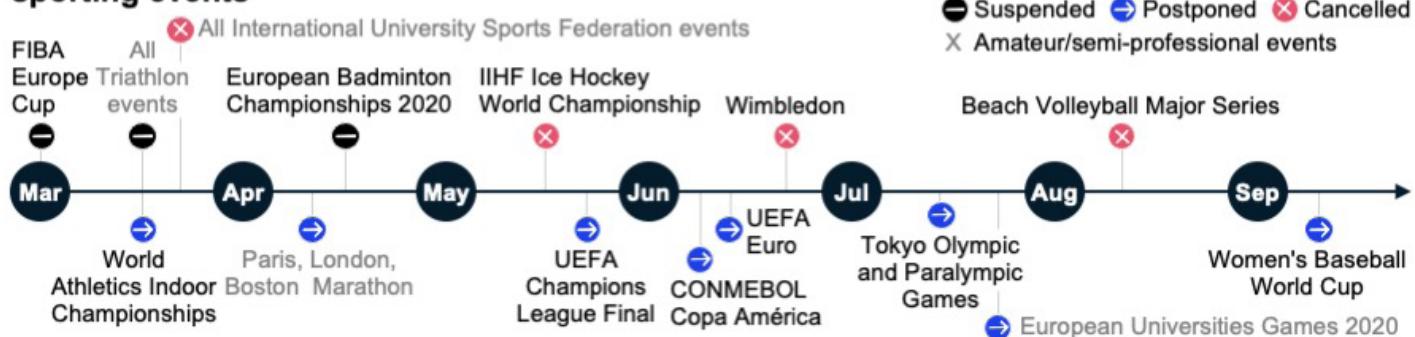
Source: Company annual reports, Company presentations, press, analyst reports, ecommerceDB, CapitalIQ

Peloton quarterly workouts more than quadrupled in 2020 as homes were recast as gyms
Millions



Source: Outside in articles/press releases, company website/annual report

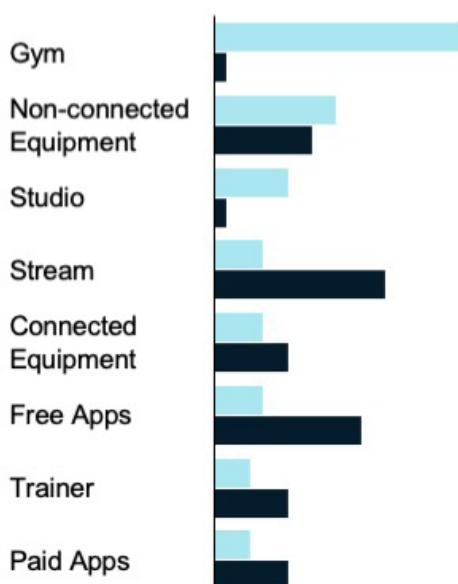
COVID-19 led to the cancellation, suspension, postponement of many major sporting events



Source: Press clippings; Sports associations

Reduction in gym usage lead to usage of digital equipment during lockdown

Pre-lockdown During lockdown



Source: Fitness Survey (N = 2,855 Completes) as of 4/16/20

Most people change their exercise routines during 2020 and exercised either more or less than before

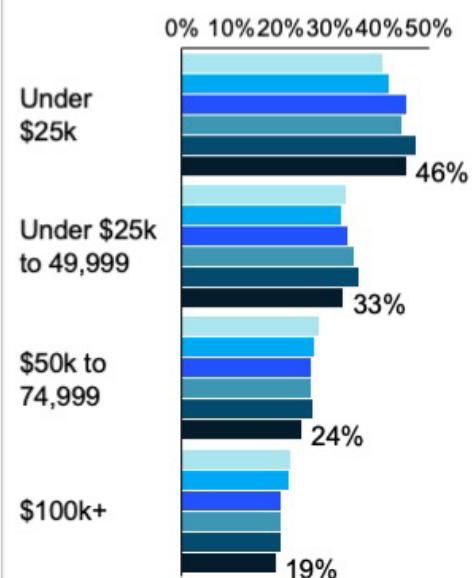
Less than usual Same More than usual



Source: McKinsey & Company Sporting Goods Survey October 2020, n = 110; Sport England Weekly Surveys April to May 2020, n= 2,000 participants, England

Inactivity remains unequally distributed and rising especially among lower incomes

2014 2016 2018
2015 2017 2019



Source: Physical Activity Council - study performed on US population aged 6+ with 18,000 participants

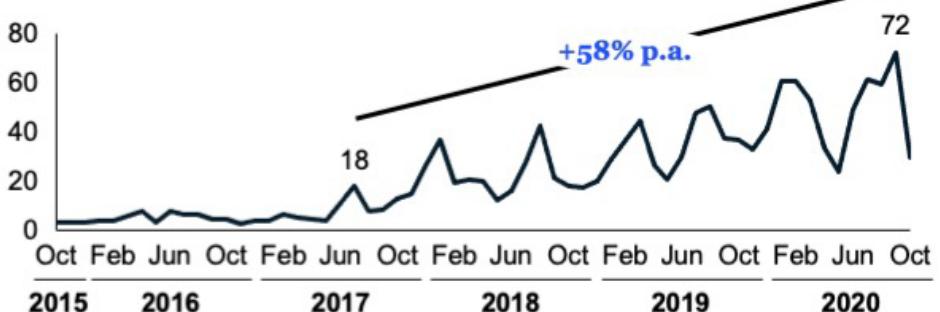
Sports fans expected athletes to be involved in the BLM movement (and other causes)

72%

Believe athletes provide a unique view and are an important influence



Number of net new "sustainable" SKUs¹ keeps increasing '000s; introduced in the online market



1 Keywords used: Environment, Environmental, Eco, Eco-friendly, Organic, Recycled, Sustainable, Sustainability

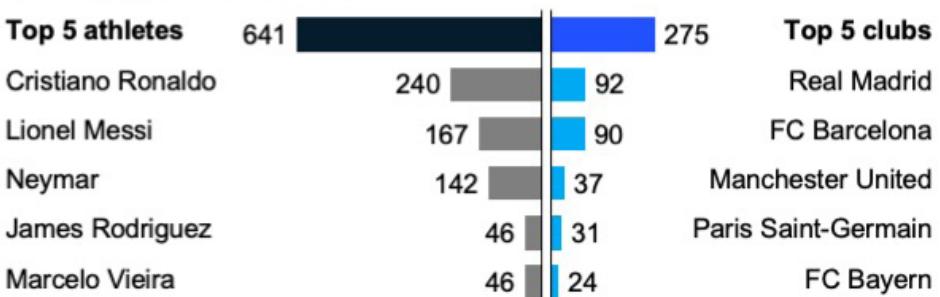
59%

Expect athletes to personally help progress the BLM movement



Source: Nielsen U.S. Promoting Racial Equality in Sports Study, July 2020, n=1,000

Top athletes keep outperforming clubs and leagues on Instagram followers



Source: Instagram, Press search

Foreword

The World Federation Sporting Goods Industry (WFSGI) and McKinsey & Company have teamed up to present our inaugural Sporting Goods Industry Report — *“Sporting Goods 2021 – The Next Normal for an Industry in Flux”*. The report comes at a critical moment for the sporting goods industry, as COVID-19 continues to play out around the world. The impact of the pandemic is shifting consumer behaviors, and creating a requirement for careful analysis and strategic planning. In that context, the authors hope this publication will make a useful contribution to the debate.

The idea for the report was born out of a series of webinars organized by WFSGI and McKinsey & Company in March 2020. Participants were offered insights into the development of COVID-19, evolving consumer sentiment, and the potential implications for industry players. The high number of attendees, and the positive reception we received, sparked the idea for a more in-depth analysis, both of the present situation and of the “next normal” that is slowly taking shape.

This report is designed to present the latest thinking on themes that have either dominated the past year or will likely become cornerstones of the emerging reality. Our research drills down into a range of trends shaping the industry — including the rise of athleisure, the impact of digital, the surge in demand for home fitness solutions, and increasing inequality in physical activity. The report looks at the changing face of retail and the growing importance of sustainability, as well as new business models and the need for reformed supply chain relationships. Some of these trends were already in play ahead of COVID-19, while others represent a departure from the status quo. In both cases, companies face rising risks and opportunities. Finally, the report discusses potential strategies that might form the basis of a winning path forward.

Many of the insights herein are grounded in conversations with industry leaders, who have kindly shared their thoughts on the key topics on the C-Suite agenda. In addition, in October 2020, we conducted an in-depth survey of WFSGI and SFIA members, the results of which are quoted throughout the report. We also organized interviews with a group of executives — representing manufacturers, brands, retailers, WFSGI and McKinsey experts. Finally, a joint WFSGI-McKinsey team leveraged public and proprietary research to create a comprehensive knowledge base of key metrics defining the current state of the sporting goods industry.

Given the events of the past year, there is much hope among industry executives that the coming 12 months will be better, and will present a chance to put businesses back on track. The authors hope that this report will inform discussions to that end. Please feel free to share your feedback and comments, using the contact information at the end of the report.

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Robbert de Kock is the WFSGI President and CEO. He brings more than 35 years of sporting goods industry experience in the broadest sense. His professional experience goes from retail to wholesale with excellent knowledge in the manufacturer processes and international sport relations for global advocacy. Robbert also holds a number of board positions within international, continental and national sport federations.



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Executive Summary

In 2020, the sporting goods industry contracted for the first time since the financial crisis. Most brands, retailers and manufacturers finished the year significantly in the red, despite a bounce back in activity after the first and before the second wave of COVID-19 related lockdowns. However, the impact of the pandemic goes beyond temporary performance. It has also accelerated changes that will have long-lasting impacts on companies throughout the sporting goods value chain. Indeed, COVID-19 has ushered in the next normal for the industry, defined by factors including digital commerce, rising demand for sustainable products, and increasing participation in individual forms of sport and exercise. To win in the new environment, the industry needs to adapt both its customer proposition and its operational capabilities. This report presents a review of the past year and a preview of 2021. It also analyzes eight key themes likely to define the industry's evolution in the coming period. Finally, the report drills down into some of the qualities that will separate leaders from the rest over the next 12-24 months.

Review 2020

COVID-19 had a profound impact on the global sportswear market in 2020, with most companies posting weaker sales. The exception was the Chinese market, which continued its role as the industry's growth engine, after expanding at an average of 16.5 percent a year (CAGR) from 2015 to 2019.¹

Sporting goods companies saw their market valuations fall in the early months of the pandemic. However, they tended to outperform the wider market as the year progressed, with sports equipment makers doing especially well. Sportswear companies were also more resilient than the rest of the apparel industry.

Specific sports were impacted with varying degrees, depending on how easy they were to access in a locked-down environment. Outdoor individual sports and home workouts both saw increased participation. Team sports and indoor sports, meanwhile, struggled, and were also hit by the postponement or cancellation of major sporting events. Among emerging opportunities, women's clothing came to the fore, amid increased focus on activities such as home workouts, running, and yoga/Pilates.

Outlook 2021

The coming 12 months are set to be characterized by a more positive outlook, albeit amid uncertainty caused by an unfolding second wave and the relatively slow ramp up of vaccination capacity. Nevertheless, executives are cautiously optimistic and are focused on growth opportunities — 64 percent of respondents to the WFSGI-McKinsey Sporting Goods Survey expect 'better' or 'much better' market conditions.

The biggest challenges for the coming year are seen in supply chains and COVID-19-related issues. The greatest opportunities, meanwhile, are associated with the potential return of large sports events, including, potentially, the Olympic and Paralympic Games, and the ongoing rise in popularity of outdoor and home sports. Categories that did well in 2020 (including outdoor individual, home exercise, yoga, e-sports, and virtual races) are expected to remain on a high in 2021. Categories that saw a limited increase in participation, or a decline, are likely to make a partial recovery, but at a lower rate than categories that were winning in 2020.

The great unknown for 2021 is the trajectory of COVID-19. However, in any event, successful players will be defined by an ability to make smart moves to leverage the opportunities highlighted in the trends section of this report.

¹ Euromonitor International

Trends set to shape the industry in 2021

This report presents eight key themes set to shape the sporting goods industry in 2021 and beyond. Most were already emerging ahead of COVID-19, but the dramatic events of the past year have accelerated their introduction and heightened their impact. The research shows it will be critical for sporting goods players to align these evolving dynamics in order to succeed in the next normal.

The trends may be broadly described under three banners: Consumer shifts, digital leap, and industry disruption:

Consumer shifts

1. **Athleisure — the New Default and a Competitive Battleground:** Athleisure was a megatrend before COVID-19, but the pandemic has served to further blur the lines between work and free time, and there is a rising acceptance of comfortable wear in previously more formal contexts. With fashion brands increasingly entering this segment, sporting goods players should leverage their innovation abilities and market knowledge in order to win.
2. **Physical Activity Gap — an Opportunity to put Healthy Lifestyles within Reach of All:** COVID-19 has triggered significant shifts in physical activity levels. Around 40 percent of people are being less active, while around 30 percent are more so. The current crisis will drive more households into lower-income groups, which are more vulnerable to reduced levels of physical activity. The sporting goods industry should embrace a multi-stakeholder approach to tackle physical inertia, especially in communities left behind.
3. **Sustainability — the COVID-19-accelerated Next Normal:** Sustainability has become an increasingly urgent consumer priority, and companies have responded by introducing more sustainable products. COVID-19 accelerated the trend. The onus now is on companies to secure sustainable supply chains and to engage with concepts such as circularity.

Digital leap

4. **Digital-enabled Fitness and Exercise Communities Take Center Stage:** Digital fitness accelerated during the pandemic, as digital solutions provided both inspiration for exercise and a sense of community. Digital tools will continue to be integrated into fitness routines post-COVID-19. The big winners to date have been connected offerings (e.g., Peloton, Zwift) allowing remote exercising in a community/competitive setting.
5. **Leap Forward in Online — an Accelerating Business Model Shift to DTC:** The past year has seen a leap forward in online shopping, with many first-time users who we expect will stick with their new habits. Companies need to migrate from wholesale to DTC, putting digital commerce at the center of the business model.
6. **Marketing Shift from Assets to Influencers — an Opportunity to Make Digital Pay:** Digital marketing was traditionally focused on ROI-driven performance, but with people spending increasing amounts of time online, and many sports events cancelled, brands need to find new ways to engage online. Individual athletes will play a pivotal role and become the communicators of choice to align brands with consumer values.

Industry disruption

7. **Retail Under Pressure — But a Critical Part of the Future Channel Mix:** Brick and mortar stores were already under pressure pre-COVID-19. However, lockdown measures have accelerated the crisis amid widespread closures and increasing financial pressure. To attract consumers back to stores, retail needs to find new purpose, new experiences, and new levels of convenience that cannot be offered digitally.
8. **Supply Chains —the Flexibility Imperative and a Raised Bar on Agility:** More agile supply chains have become a permanent feature on company agendas. In a post-COVID-19 world, characterized by shorter demand cycles, e-commerce and closer DTC relationships, they will be table stakes in some markets. Amid persistent uncertainty, it will make sense both to build stronger supply chain partnerships and explore alternatives such as near-shoring.

Winning in the Next Normal

Pre-COVID-19, many companies were riding a wave of increased sports participation. However, COVID-19 has raised the bar for winning, amid tougher market conditions, pressure on physical retail, and the need for investment to align with an increasingly dynamic industry landscape.

In the next normal, winners will be characterized by:

- **Strong presence in growing segments and sport categories**, including women, China, and athleisure (which we predict together will account for around two thirds of growth in 2020-2023), as well as running and biking
- **An excellent DTC business model**, including a proprietary e-commerce and seamless omnichannel offering, powered by a cutting-edge back-end (expertise, fast development cycles, omnichannel capabilities)
- **Direct connection to consumers**, through (digital) communities, loyalty programs and the like.
- **A purpose-driven retail footprint**, with specific formats for different store types.
- **Credibility on sustainability**, either as a differentiator or on par with industry, at a minimum
- **Revisited supply chain relationships**, with built-in agility (e.g., local-for-local sourcing and closer partnerships).
- **Sports marketing optimized for digital channels**, with a focus on influencers (e.g., individual athletes), who are aligned with brand values.
- **Agility in planning and budgeting**, to respond quickly to changes in the market environment (including a potential re-emergence of COVID-19).

Winning players will not necessarily possess all these attributes. However, those that can get a grip on most of them will be best positioned to create a virtuous cycle of commercial excellence, increased sales — leading to higher fixed cost degression — and more cash for investment. Players that fail to make the necessary changes, conversely, may find themselves stuck in a vicious cycle of worsening commercial performance, higher relative costs, and decreasing investment potential that will undermine their ability to realize opportunities.

Industry Review 2020: Managing the unmanageable

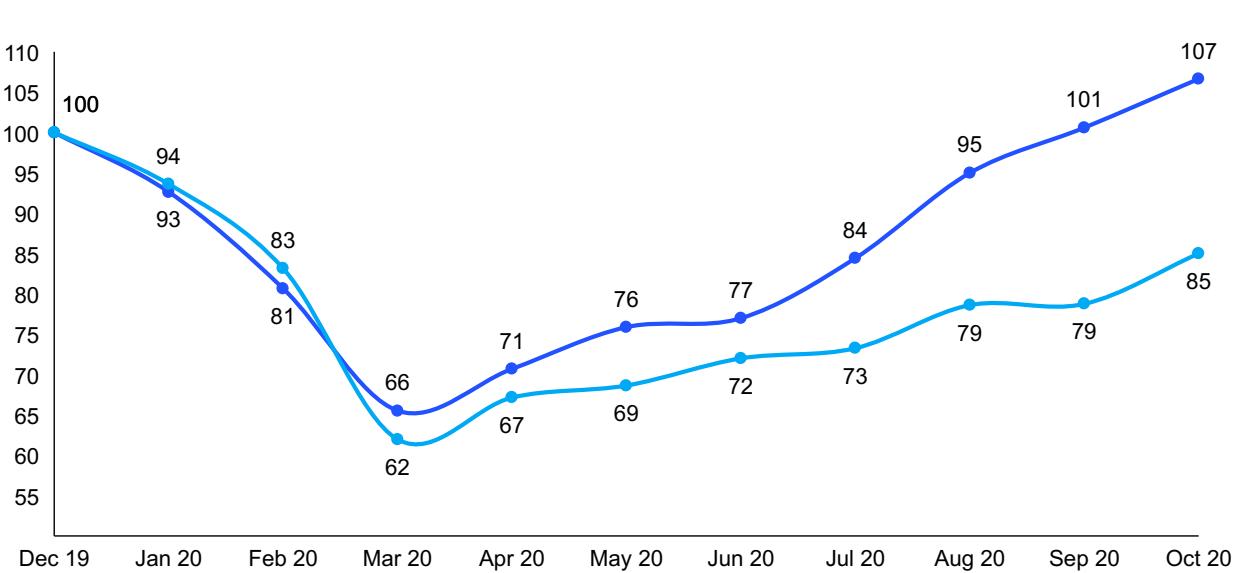
Looking back at 2020, executives in the sporting goods industry have different perspectives: Similar to many industries, the majority of executives reported that conditions were either worse or much worse than in 2019, with nearly two thirds posting declining sales.² However, a number were more positive because they were positioned in pockets of growth fueled by the pandemic.

Exhibit 1

Sportswear companies have been more resilient to the pandemic than the rest of the apparel industry and continue to outperform

State of Fashion 2021

Market capitalization for sportswear companies vs. other apparel
Indexed to Dec 2019 as 100



Source: McKinsey Global Fashion Index (MGFI)

² WFSGI-McKinsey Sporting Goods Survey October 2020

COVID-19 wreaked havoc with the sporting calendar in 2020. With sporting events around the world either delayed or cancelled, merchandise sales tumbled, and marketing campaigns failed to get out of the starting blocks. Numerous companies reported lost costs, contractual disputes, and reduced product and merchandizing sales. Product launches, meanwhile, were either canned or put on the back-burner.

Depressed household incomes and closed shops during the pandemic left consumers with less cash to spend and fewer opportunities to shop at their favorite brands. As a result, we see the sporting goods market contracting by around 7 percent in 2020 to around 286 billion euros, compared with 308 billion in 2019.³ The pain has been spread fairly equally across the continents, with negative growth ranging from around -7 to -12 percent. The exception has been China, which recovered faster than other countries and saw its market share rise

to around 14 percent in 2020, from 10 percent in 2015, as domestic growth flatlined and other markets contracted.

Despite the generally challenging environment, the picture was not entirely gloomy. Digital channels thrived relative to physical, and online sales bounced back once the first wave passed, and many consumers tried to find ways to stay active and healthy in their new environment. In May, digital sales were as much as 20 percent higher than before the pandemic, although that percentage faded as physical stores began to reopen, reaching around 10 percent by August.⁴

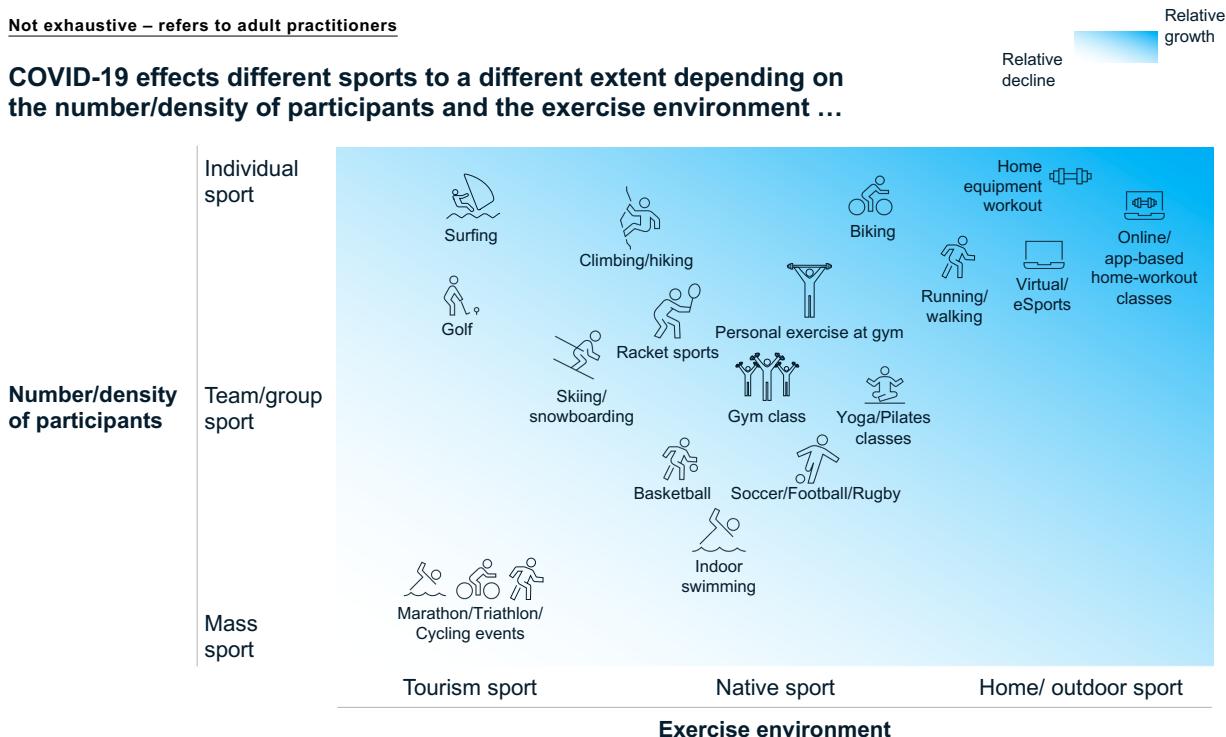
Driven by this trend, the sporting goods industry outperformed the apparel industry, recovering much faster after the initial drop and achieving relatively higher market capitalizations from September onwards than it had in December 2019 (Exhibit 1).

Exhibit 2

Sports categories are impacted with varying degree depending on their inherent COVID-19-friendly characteristics

Not exhaustive – refers to adult practitioners

COVID-19 effects different sports to a different extent depending on the number/density of participants and the exercise environment ...



³ Euromonitor International

⁴ Company financial reports; Company presentations; Press; Analyst reports; ecommerceDB; CapitalIQ

Valuations of sporting goods companies more generally fell sharply in April, but then recovered and continued to rise through the northern hemisphere summer and autumn. Sporting equipment providers fared well, in some cases reaching record valuations as demand for home fitness solutions soared. Apparel and speciality sporting products companies also saw their valuations consistently rise after the initial COVID-19-induced shock.

Drilling down into individual categories, some performed much more strongly than others (Exhibit 2). At the top of the tree were home sports providers — in particular software-based workout solutions. Other categories that performed well reflected activities that were most easily undertaken during a pandemic — biking, running and yoga/Pilates led the way. Generally speaking, individual sports, home sports, and outdoor sports were easier to access than team sports and were therefore more popular. As a result, climbing and hiking fared better than football and basketball. There was also much weaker demand for sports often connected with

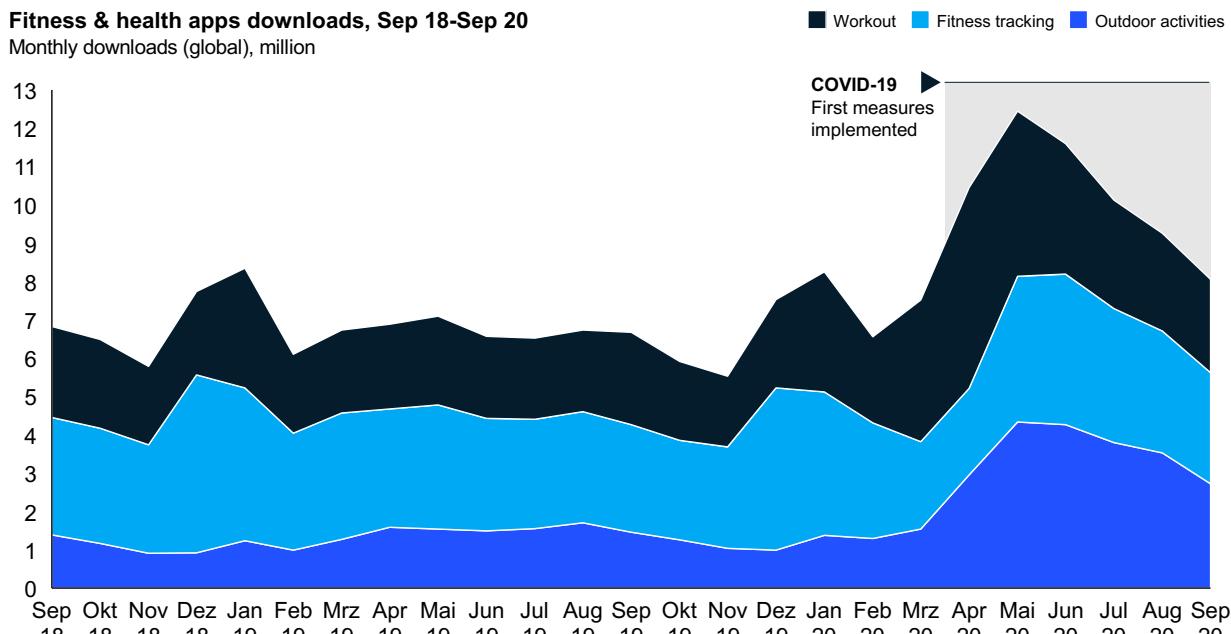
travel and tourism — golf fell into that category, alongside surfing. Even as the COVID-19 crisis abates over the coming year, we expect these trends to persist, reflecting continuing caution in respect of travel and associating in large groups.

The COVID-19 period was associated with a significant rise in downloads of fitness and health apps, including workouts, fitness tracking, and outdoor activities (Exhibit 3). Download rates spiked upwards in all three in April, from an average monthly total of around 7 million downloads prior to the pandemic to more than 10 million. Among successful brands were social biking app Peloton, fitness community app Garmin connect, and (hiking/biking) route-planner Komoot.

In general, individual sports that do not require travel fared relatively well. For example, many countries saw a surge in bicycle sales in 2020, reflecting people's reluctance to use public transport and interest in biking as an alternative pandemic-safe sporting activity. US sales of bikes, equipment, and repair services doubled in March 2020,

Exhibit 3

Spiking downloads of outdoors apps during COVID-19 confirm the increasing consumer interest



1. Peloton, Aaptiv, Seven – 7 Minute Workout, Fitbit Coach, adidas Training and Running by Runtastic, Nike Training Club, Nike Run Club, Zwift

2. Komoot, Bikemap, Wikiloc Outdoor Navigation, Outdooractive: Walks & Biking, ViewRanger, Strava

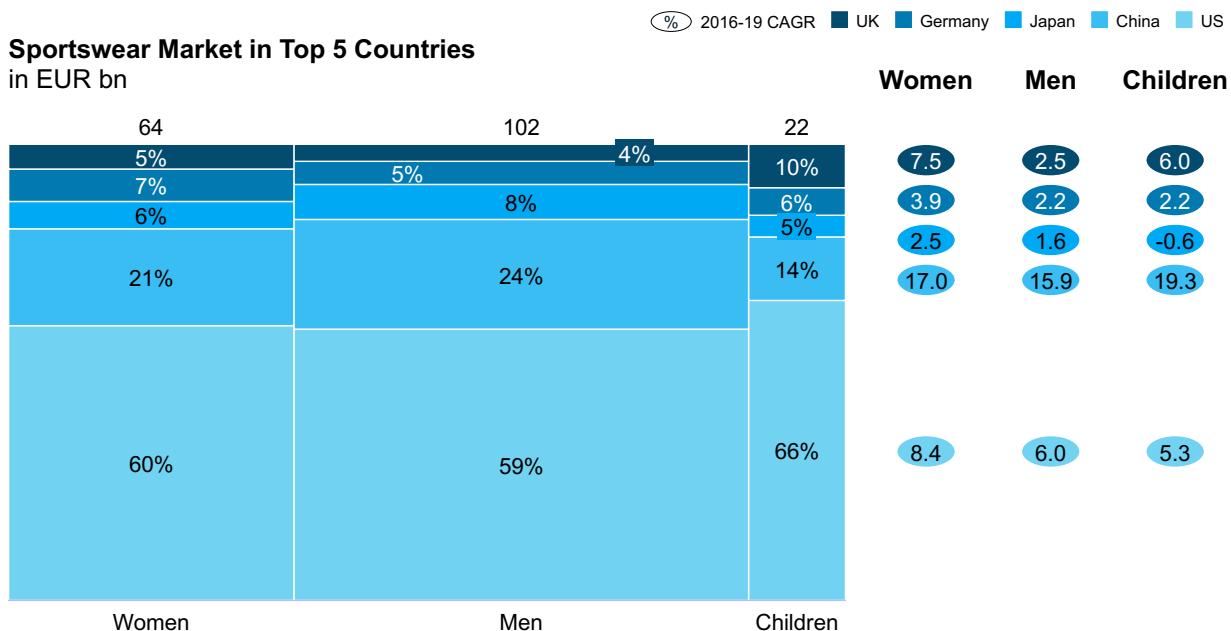
3. Garmin Connect, Cyclemeter, MyFitnessPal, Fitbit, Polar Beat

Note: Downloads include Google Play Store as well as Apple App Store

Source: Airnow Data

Women remain a huge growth opportunity in Sportswear

Cultural changes and women participation in sports will drive the further growth



Source: Euromonitor International, McKinsey analysis

compared with 2019, and rose sharply in Germany, the UK, and France.⁵ At the same time, governments have pledged millions of dollars to upgrade cycle routes and infrastructure. Still, the jury is out on whether the shift to cycling will be permanent, or whether there will be a slide in participation when the pandemic abates.

Another activity to have boomed over recent months is running, with average runners increasing their frequency by more than 100 percent.⁶ Four in five runners in one survey say that the activity makes them feel saner and more in control, and 65 percent say that the mental benefits of running outweigh those of other forms of exercise.⁷ Appetite for running was reflected in consumer choices. The RunKeeper app, for example, saw registrations more than double in May, compared with the same period the previous year. Running

shoes also got a boost, with sales of performance trainers rising 30 percent year-on-year in the last week of June. Brands including Brooks, Hoka One Hoka, and On saw double- or triple-digit growth between May and June.⁸ Looking forward, research suggests the running trend to persist in 2021, reflecting the fact that 73 percent of runners say they are going to continue after the pandemic.⁹ Meanwhile, 62 percent of those who started running during the pandemic say they are set to carry on with their new hobbies — an example how a consumer shift triggered by the pandemic will likely last longer term.

Another important theme is rising female participation (Exhibit 4) in sports. Notably, since 2019 women have accounted for a higher proportion of runners than men, and we believe that the female segment presents

the sporting goods industry with a significant opportunity. Indeed, female participation in many sports is rising, and women tend to be more willing to see sports as an integral element of maintaining health and wellbeing. Pre-COVID-19, the female sports segment in the top five markets outperformed the male and child segments by far. In the US, the female segment grew 40 percent faster than the male segment, while in the UK it expanded three times as quickly.

Not surprisingly, sporting goods companies that aligned with these growth opportunities over the past year were able to outperform and set themselves up for a more positive start to the year ahead.

⁵ Press research

⁶ RunRepeat Consumer Survey March 2020

⁷ ASICS Consumer Survey June 2020

⁸ NPD; Company reports and press releases

⁹ ASICS Consumer Survey June 2020

— Joe Preston, President & CEO, New Balance

How do you look back on 2020?

2020 was a challenging year. When COVID-19 hit, the effect on the industry was immediate. At New Balance, we own about 500 stores and operate another 3,000 around the world. Those stores were all closed essentially as of the second week in March, as were all of our retail partners.

However, when people found themselves stuck inside - with all the gyms closed and all team sports canceled or paused - the sporting goods industry began to stand tall. As consumers were looking for alternatives to be active, either inside their home or individually outside, the industry reacted and enabled people to recast their home as a gym, engage in outdoor sports like biking or running, and gave consumers more comfortable home wear in the form of athleisure. As consumers shifted their attention and shopped online, the industry accelerated their digital commerce capabilities.

A silver lining has been communication. With most of the offices in remote work status we have seen our company and the industry quickly adapt to and use Microsoft Teams or Zoom, and

while nothing replaces face-to-face it has shown how we can increase communication with these tools.

Going deeper on a few points you mentioned, let's talk about retail. How do you see the state of bricks and mortar sporting goods stores and their role going forward?

Clearly, a retail disruption was already taking place when COVID-19 hit. It has actually been ongoing for close to a decade. This has been accelerated by the digital disruption and put physical sporting good retail in a challenging position. COVID-19 has forced the contraction of the retail footprint around and been very hard on small independents. The digital shift is here to stay, and the industry has to adapt.



— Joe Preston

Thinking about the role of retail stores in this environment, firstly, I think we need to redefine what a sporting goods store is today. Many stores are niche-oriented, while this crisis has underscored the breadth of how sporting goods can contribute to everyone's activity. Secondly, stores can have a significant role in enabling the last mile: stores can literally serve as a warehouse for a specific market area. Consumers expect more in terms of experience, and the most important is a seamless omnichannel experience.

In conclusion, if we just re-open our stores under the old model, we're really missing an evolution of consumer needs that has taken place, and a great opportunity. Sporting goods retail needs to cater to the everyday person that wants to be inspired to be more active.

You mentioned that the digital shift is not only relevant for purchases but also for engagement. How has this evolved over the last year?

Of course, we have seen a significant increase in online activity across the board. As people spend more of their work life on Zoom, Microsoft Teams or Skype, they are also increasingly open to replacing physical gym classes with online instruction. This is complemented by technology like trackers or Apple Watches that give consumers more transparency and control when it comes to their own health and wellness.

Furthermore, I think people, particularly when spending more time at home, seek community. And that's one of the things that, for example, the Peloton model provides. It's not just a bike. It's not just you and the trainer. It's you and a community of people training. This human desire for community is a significant opportunity for our industry if we manage to engage and inspire people in their increasingly digital lives.

Shifting gears a bit: 2020 has seen not only an impact on sporting good retail but also on the supply chain of many players. What is your perspective on this topic?

The geopolitical tensions and disruptions, and the increasing need to be closer to the consumer and trends, is leading more players to prioritize and build out local production as part of their strategy. At New Balance, we have factories in the United States and one in the UK. It's not the majority of our footprint but there's no question that we will leverage these to be closer to our consumer.

Also, COVID-19 has raised the awareness for inherent risk in one's supply chain. If you concentrate manufacturing you are at risk, if you concentrate distribution you are at risk, in case there's a virus outbreak in that area. However, it doesn't stop with your own footprint. You also need your secondary suppliers to have a robust manufacturing process, and that's often been stripped away in recent years. So, if you want to shift to more local production, you have to work with an entire network of companies. Despite these challenges, there is no question that the trend for local manufacturing in our industry will continue.

Overall, how would you summarize the situation in which most sporting goods companies find themselves today?

2020 was a year of massive disruption and accelerated change. I think that many of these changes will stick. Firstly, it's going to take time for vaccines to be in place and even then, people's behavior will not return to pre-COVID-19 norms. For example, I think people will be hesitant to go back to gyms in droves during the next couple of years. Also, people will continue to spend more time at home in hybrid working arrangements and continue to leverage the opportunities

of the digital world. Hence, many of the adjustments the industry has made will need to be further built out and perfected. Whether it is the focus on athleisure, the scale up of omnichannel, the renewal of physical retail, or the de-risking of supply chains. 2020 was challenging but 2021 will also be demanding. It will offer great opportunity for those that have adapted operations and have the consumer at the center of their efforts.

Industry outlook – persistent uncertainty, risks and opportunities

Sporting goods executives are cautiously optimistic that 2021 will see better industry conditions than 2020. However, while there are signs that COVID-19 might be better controlled in the year ahead, uncertainty will likely continue to play a key role in shaping the industry landscape.

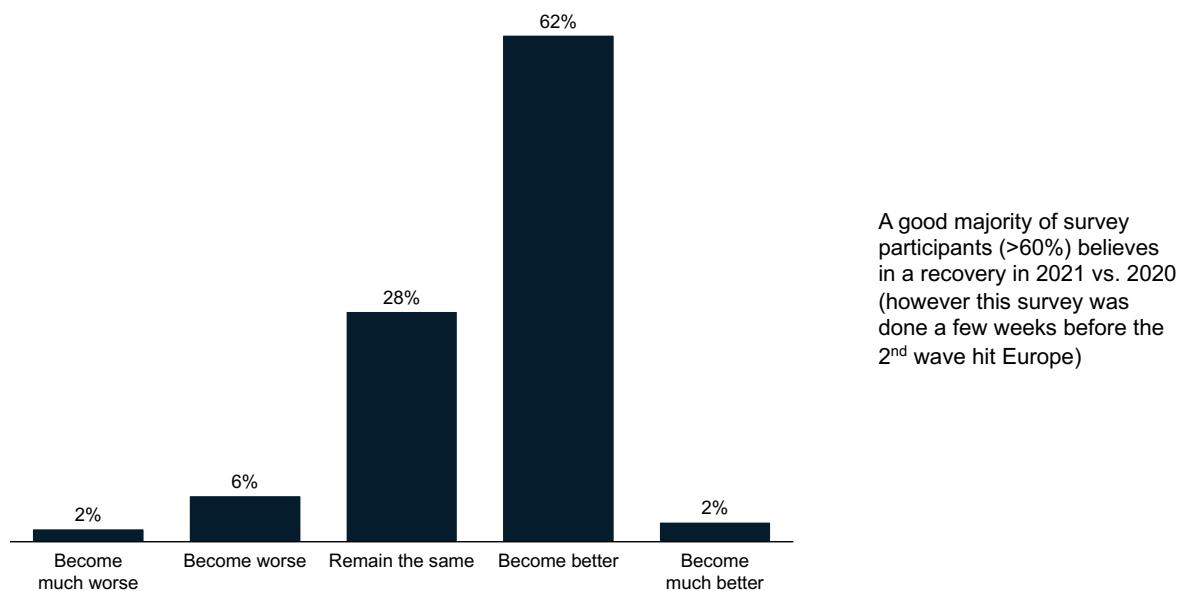
Uncertainty isn't going anywhere fast. However, in the year ahead, a range of other priorities will also sit prominently on C-Suite agendas. These will include growth opportunities, increasing competition, and a need to get a grip on the many changes impacting the industry. Indeed, sentiment overall is

much more positive for 2021, with 62 percent of executives saying they expect business conditions to improve, and 28 percent saying they will remain the same. Just 6 percent think things will get worse – almost certainly a reflection of how challenging things have been in 2020.¹⁰

Exhibit 5

Survey participants and forecasts are cautiously optimistic for 2021

How will conditions evolve for the Sporting Goods industry in 2021 compared to 2020, in your view?

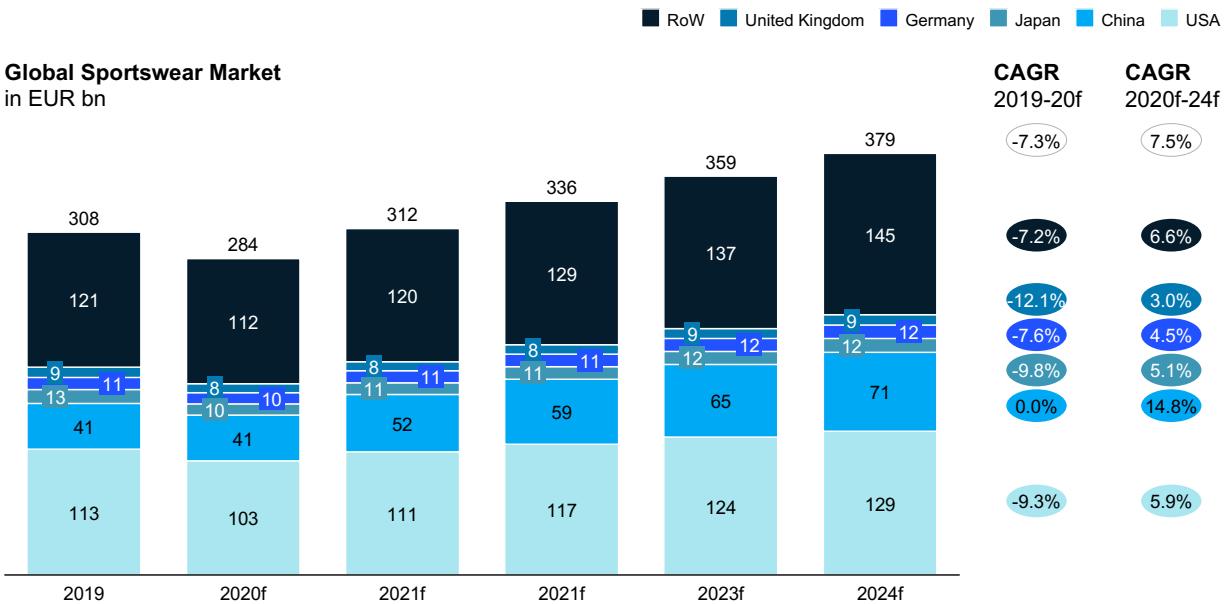


Source: WFSGI + McKinsey & Company Sporting Goods Survey October 2020, n = 130

¹⁰ WFSGI-McKinsey Sporting Goods Survey October 2020

Exhibit 6

COVID-19 had a profound negative impact on the global sportswear market, China continues to take share and will be the growth engine going forward



Source: Euromonitor International

Executives have a clear view on what will matter in 2021. The biggest **challenges** are seen in the supply chain, COVID-19-driven policies, and the need for new marketing strategies, reflecting shifting channel preferences (Exhibit 7). There will be **opportunities** associated with the possible restoration of large sports events such as the Olympic and Paralympic games, the continued rise of outdoor and home sports, as well as increased customer engagement with digital.

Still, despite an improving picture, the coming 12 months will likely represent a moment of truth for many companies, in which the need for adaptation to changed realities will create both winners and losers. This is a key theme of this report and the dominant view of executives on the likely road ahead.

When it comes to sports participation trends, executives believe that the momentum established during the pandemic is likely to remain.

“Rising participation in individual sports will remain in the mid-term.”

— G. Musciacchio, Co-CEO, arena Group

Exhibit 7

What do you think will be the single biggest challenge and the biggest opportunity for the Sporting Goods industry in 2021?

Challenge

economic situation
major politics
group gathering activities
mass events
retail trade restructuring
social distancing
COVID-19 concerns
COVID-19 scenarios
change process
evolved customer need
managing supplies chain
global footprint
COVID-19 health crisis
change of structure
less purchase power
preview consumer behaviour
absence of sportsevents
lack of demand
supplies chain flexibility
traditional events
new demand
uncertain events
sensitivity of consumer
situation of participants
fear of cv19
new marketing strategy
supplies chain agility
team sports
channel disruption
consumer purchase
price competition
cash flow

Opportunity

customer engagement
brand value
market acceleration
consumer behaviour change
outdoor sporting good
renewed focus
digital offering
individual market
participants retention
natural social distancing
building customer engagement
new consumer
socially distanced sports
develop direct
Olympics/Paralympics
line business
new model
new growth
new consumer
social distancing activities
capture growth
home sports
online marketing
supplies chain
new growth
new potential customer
health & nature

Source: WFSGI + McKinsey & Company Sporting Goods Survey October 2020, n = 130

“The change in consumer behavior will last after Covid-19—there will be no return to the old-normal.”

— C. Browne, COO, Under Armour

Some 84 percent predict lasting appetite for outdoor individual sports such as running, cycling, and hiking, while 72 percent see persistent engagement with home exercise, including digital and social options to support workout routines (Exhibit 8).¹¹ Yoga and Pilates will continue to ride their recent wave of popularity.

At the other end of the spectrum, activities that came under pressure in the past year will probably remain so. Indeed, team sports such as handball and volleyball, for example, will not make any quick return, and sports that require travel – such as skiing and surfing – will see continued subdued participation rates.

In terms of sales performance, 2021 is expected to see an uplift that will be unevenly distributed around the globe. Overall, we expect, once the pandemic is under control, a continuation of historic growth paths, albeit against the background of shifting channel and category preferences. China is forecasted to post around 15 percent growth (CAGR) in 2020-24 (Exhibit 6).

The USA and Japan will likely see around 5 percent growth, while Germany, the UK and most major European markets will grow at 3-5 percent. The rest of the world will probably expand at around 6 percent.

Given the uncertain but broadly constructive outlook, the onus on decision makers will be to think carefully about where they can unlock pockets of value and align the business with demand. It will probably also make sense to operate on shorter-time horizons, enabled by more agile supply chains. Given that a speedy return to “normality” is unlikely, winning companies will be those that manage capex and opex carefully and are decisive in taking their opportunities.

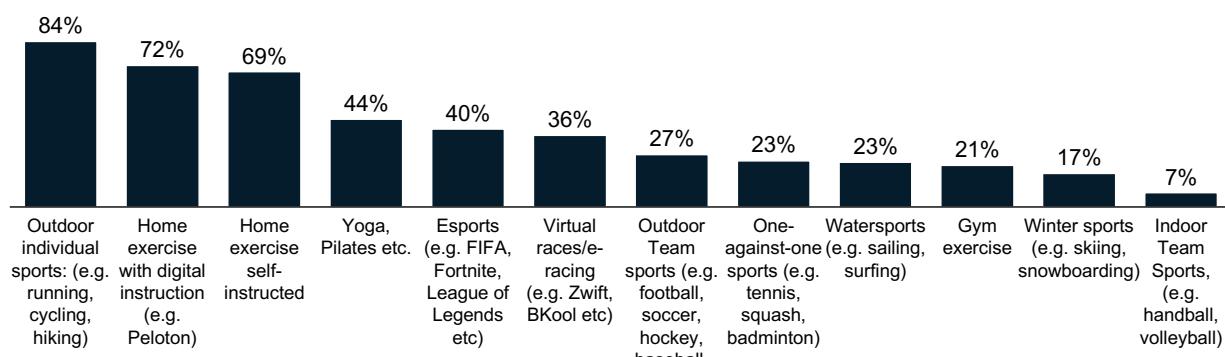
Exhibit 8

2021 sports categories focus

In which sports/physical activity categories do you expect to see a lasting increase in participation in 2021 vs. pre-COVID-19?

In which sports/physical activity categories do you expect to see a lasting increase in participation in 2021 vs. pre-COVID-19?

Values as % of survey participants selecting a specific statement



Sustained growth impact expected by large majority of survey respondents in outdoor individual sports and home exercise (digital and self-instructed)

Source: WFSGI + McKinsey & Company Sporting Goods Survey October 2020, n = 130

¹¹ WFSGI-McKinsey Sporting Goods Survey October 2020

Interview

— Chirag Patel, CEO, Pentland Brands

What kind of 2021 are you preparing for and how?

The coming year will continue to be characterized by a lot of uncertainty. We are really thinking about 2021 in a much more modular way. For example, we significantly shortened our planning horizon: pre-COVID-19 we ran on a typical three-five-year planning horizon

with a one year cut off. Now we think on a less-than-one-year planning horizon to incorporate much faster-changing external factors.

We're also putting a greater focus on our core offering; making sure we are on the shelf with what matters to consumer, but we need to make sure this isn't to the detriment of getting our innovations to consumers as well.

What do you see as the biggest opportunity for 2021?

The biggest opportunity for the industry lies in an increased focus on health and wellbeing. For many people, COVID-19 has enabled a change in lifestyle that

more easily integrates health, wellbeing and exercise into their daily routines. As an industry, we need to build on this momentum, making it a sustainable positive trend in peoples' lives.

What do you see as the biggest threat for 2021?

The biggest threat for the industry is the changed behavior when it comes to team sports and people coming together to exercise. Sports clubs are really struggling and there is a real risk that some clubs will not survive. Clubs are very important to attract children to sports. If this offering falls away, we may see future generations that are much less physically active.



— Chirag Patel

Athleisure — the New Default and a Competitive Battleground



As the lines between sports, casual, and lifestyle-wear blur, and sports-inspired clothes are worn for a broader range of occasions, Athleisure is becoming the battleground where sporting goods and other fashion players compete.

“The increased time spent at home due to COVID-19 has led to opportunities in the athleisure market.”

— C. Browne, COO, Under Armour

Athleisure has been one of the few success stories of the pandemic. With large swathes of the world's population locked down, and video calls becoming the go-to communication channel, people have favored practical and comfortable clothing over more formal work attire. As fashion brands continue to ramp up their activities in the segment, sporting goods players need to embrace innovation to defend their territory.

As with many of the themes dominating consumer markets over recent months, the pandemic has acted as an accelerator rather than a catalyst. Even before 2020, the athleisure segment was growing fast, amid soaring appetite for comfortable, sports-focused clothes. Athletic apparel and footwear grew at 3.6% and 5.5% respectively between 2014 and 2019, while other apparel segments remained largely flat.

One of the most prominent behavioral changes seen during the crisis is that we are spending more time at or near our homes, and less time on public transport, in retail environments and at

the workplace. At the same time, there has been a paradigm shift in the way that companies view home working – with three out of four companies in one survey telling their employees to stay away from the office.¹² During the COVID-19 crisis, many companies have realized it is a realistic long-term option.

As a result, the athleisure category has outperformed more formal segments, albeit that strong economic headwinds have led to declines in spending across the board. European spending on casualwear, home wear, and sportswear dropped by only 5 percent, 7 percent and 17 percent respectively in August 2020, compared with pre-crisis.¹³ By contrast, spending on fashion, business wear, and special occasion wear fell between 26 and 37 percent.

Stronger momentum in athleisure was also evidenced by a return to spending in August in Europe, between the first and second waves. While spending was still lower than pre-crisis, the dip was much less pronounced than that seen in other categories, with the basic and casualwear segments performing particularly well (Exhibit 10).

¹² Ifo Institute Analysis June 2020

¹³ Data for Germany, UK and Spain

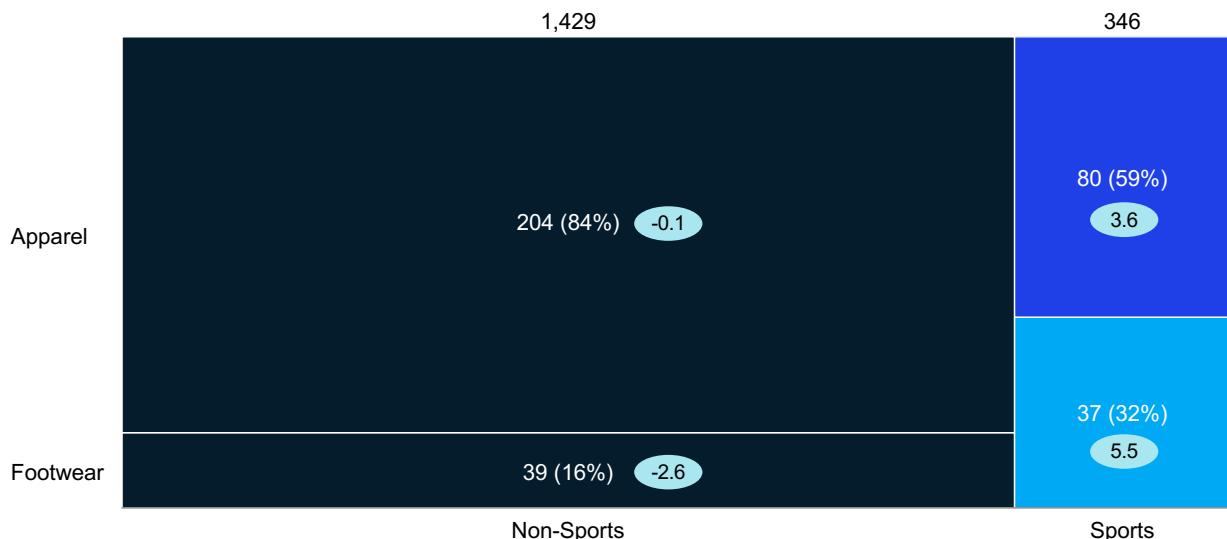
Exhibit 9

Sports-inspired footwear and apparel are growing faster than other segments

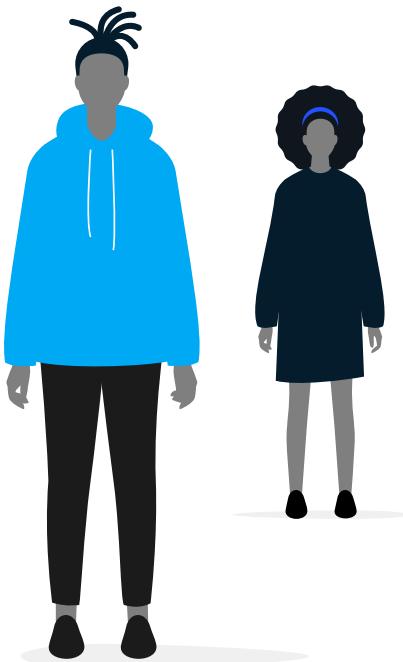
\$ billions, retail (% of total sales)

2019 Global Apparel & Footwear market

(%) CAGR 2014-19



Source: Euromonitor International



Not surprisingly, given these demand trends, sports apparel and footwear players have outperformed their peers over recent months. Revenue at some sportswear brands declined on average year-on-year by 12 percent in the first quarter, compared with 18 percent among some fashion brands, and 29 percent in the second quarter, compared with 55 percent more generally.^{14,15} Lululemon was the standout sportswear performer, seeing rising revenues year-on-year in the second quarter, while other sportswear companies recorded decreasing revenues of more than 30 percent adidas. Among fashion labels, PVH was slightly

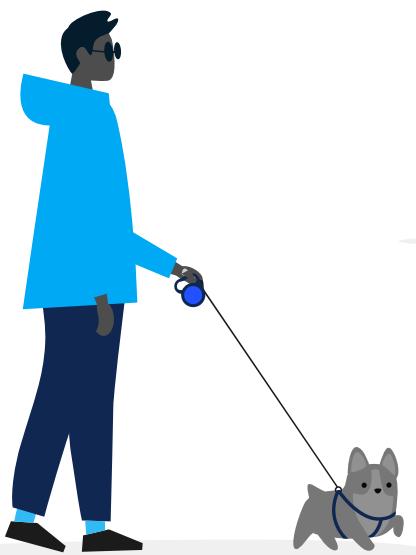
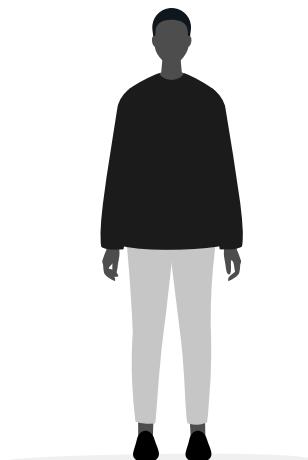
less impacted than others, seeing a 33 percent revenue decline in the second quarter. Ralph Lauren, Tapestry, Levi's, and Hugo Boss, however, all took more than 50 percent hits.¹⁶

When comparing the three key sub-segments of the sports apparel category – athleisure/sports inspired (40 percent of the total ~EUR 200m revenue market in 2019), performance (45 percent), and outdoor apparel (15 percent) – we forecast the highest growth in athleisure/sports inspired apparel with a CAGR of 3.9 percent from 2019-23, compared with 3.1 percent for the other two categories.

¹⁴ adidas, Nike, Under Armour, Lululemon, PUMA

¹⁵ PVH, Levi's, Hugo Boss, Ralph Lauren, Tapestry

¹⁶ Company financial reports



“Sports is becoming a part of people’s identity, expressed through a mixture of athleisure and sense of cultural belonging.”

— G. Musciacchio, Co-CEO, arena Group

Exhibit 10

Change in spend for apparel categories compared to pre-COVID-19 in the EU

Change in spend for apparel categories compared to pre-COVID-19 Results April 2020 vs. August 2020

	Net decrease in spend ¹		
	April	August	Change
Basic	-32%	-4%	▲
Casualwear	-29%	-5%	▲
Home wear	-32%	-7%	▲
Sports wear	-37%	-17%	▲
Trendy clothing	-42%	-26%	►
Business	-45%	-34%	►
Special occasion	-47%	-37%	►

▲ Improvement

► Unchanged



▲ A

While at the beginning of the lockdown all categories suffered, there was a faster recovery of casual / home / sports wear by August 2020

► B

Business and special occasion wear have continued to struggle

1. Vs. Pre crisis; represents difference between 'more spend' and 'loss spend'
Note: Survey conducted in Germany, UK and Spain to form representative average of EU
Source: McKinsey COVID-19 Apparel, Fashion & Luxury consumer survey, August 2020

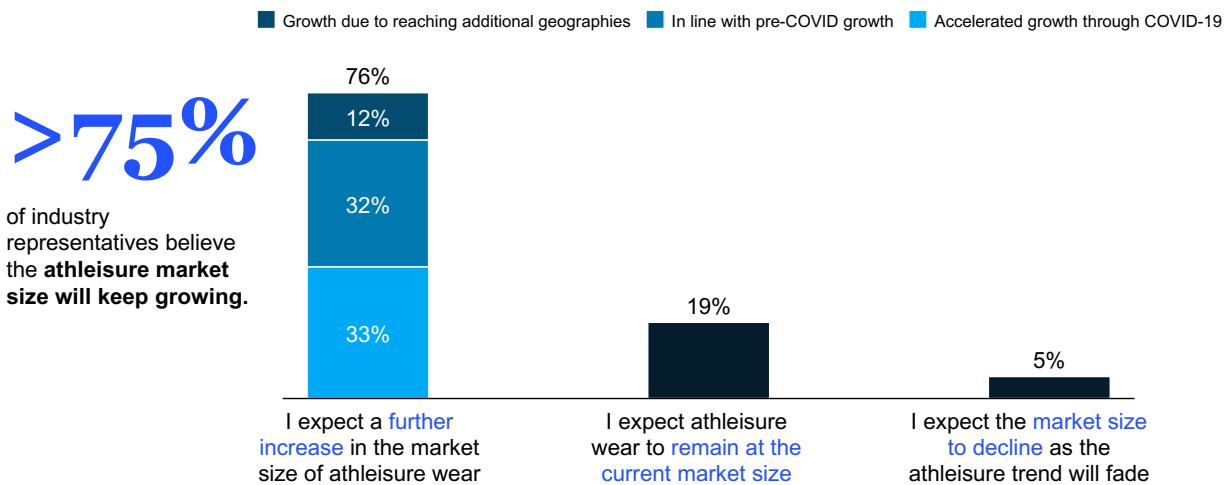
“Athleisure is highly competitive, therefore sporting goods need a clear value proposition and focus on material innovation, design innovation and leverage of sports DNA.”

— A. Arana, SVP/General Manager Global Product - Training, Running, Core Apparel & Accessories, adidas



Growth seen continuing in 2021

How do you expect the athleisure trend to develop in 2021?



Source: WFSGI + McKinsey & Company Sporting Goods Survey October 2020, n = 130

“The difference between functional and casual wear will blur.”

— D. Hu, Chief Strategy Officer, Pou Chen Group / Yue Yuen Industrial

The versatility of athleisure wear makes it particularly popular among women, who appreciate the convenience of not having to change clothes for different occasions, and we expect women will be key demand drivers in the year ahead.

Industry executives are also positive on the outlook for 2021, with 76 percent expecting further growth in the athleisure segment. Some 32 percent expect growth in line with pre-COVID-19 trends, while 33 percent expect accelerated growth. Just 5 percent expect the athleisure trend to fade.¹⁷

The momentum around the athleisure segment has not gone unnoticed in the wider fashion universe, and fashion brands have invested to compete with sporting goods players in recent months. American Eagle Outfitters, Guess, Rebecca Vallance, Fendi, Kenzo, Mango and Calzedonia are among companies to have launched new product lines.¹⁸ Indeed, the lines between athleisure and classic apparel are becoming less distinct, with sportswear brands introducing

everyday styles and general fashion brands incorporating performance fabrics and venturing into athleisure.

Given a more competitive landscape, winning sporting goods brands over the coming year will need to find ways to outperform fashion brands in the growing athleisure segment. A key advantage general fashion brands have over sporting goods players are their shorter development cycles, allowing them to respond more quickly to consumer trends. However, sporting goods players are well positioned to innovate in design and materials and strike the right balance between usability and comfort.

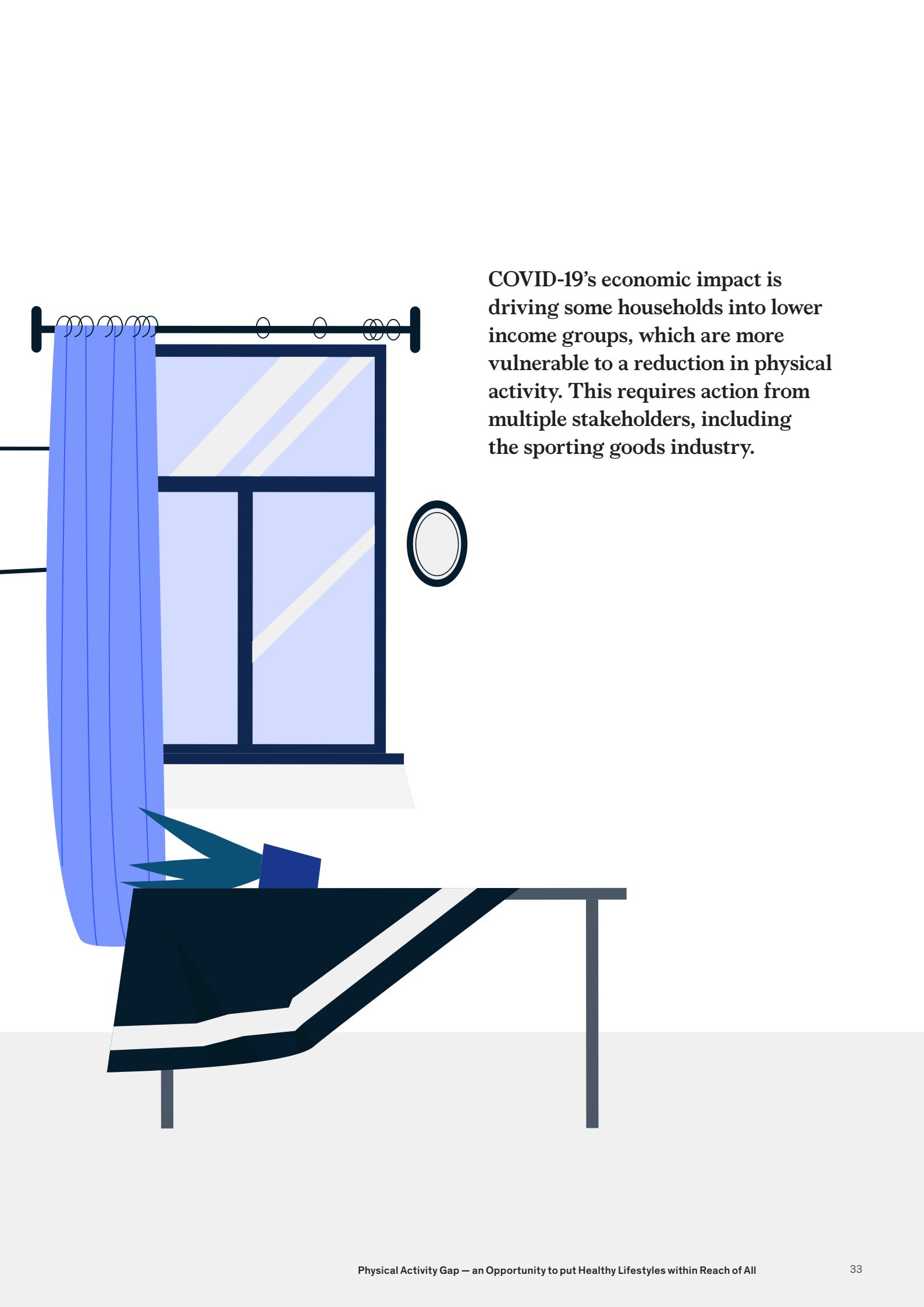
¹⁷ WFSGI-McKinsey Sporting Goods Survey October 2020

¹⁸ Company websites

Physical Activity Gap

— an Opportunity to put Healthy Lifestyles within Reach of All





COVID-19's economic impact is driving some households into lower income groups, which are more vulnerable to a reduction in physical activity. This requires action from multiple stakeholders, including the sporting goods industry.

The cliché about the impact of COVID-19 on physical activity is that the pandemic has increased people's appetite for exercise, reflecting more awareness about the importance of remaining healthy. Unfortunately, the cliché turns out only to be partially true. Aggregate levels of physical activity have remained about even over the course of the pandemic, with some people exercising more than usual and others exercising less. Moreover, the impact has been regressive, with lower income groups tending to be less active.

A weekly survey conducted by Sport England during the second quarter of 2020 found that around 40 percent of consumers in England have exercised less than usual, and about 30 percent have exercised more.¹⁹ Explanations for the reduction in exercise have included restrictions on out-of-home movement, closure of sports venues, cancellation of events, and safety concerns. Low-income families are especially vulnerable to stay-at-home rules, as they tend to inhabit smaller spaces and have less access to online options, making it difficult to engage in physical

exercise. Furthermore, school closures have limited access to sport at grassroots level — a barrier to participation that has often been exacerbated by reduced government funding.

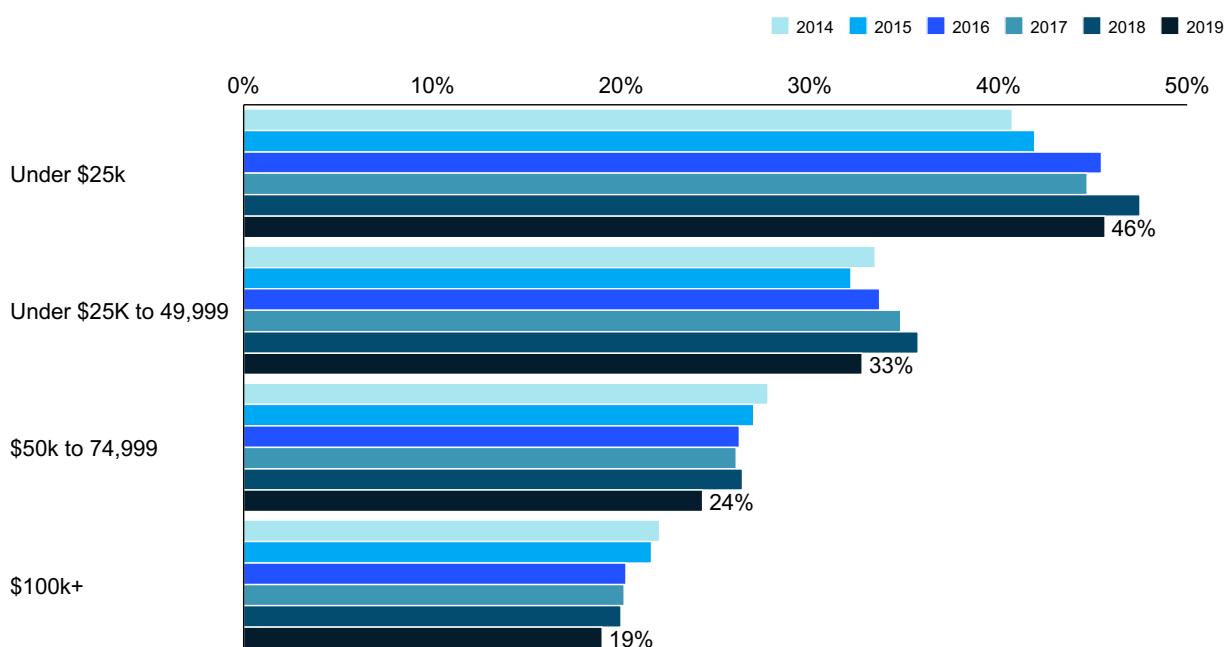
Trends during the COVID-19 pandemic echo longer-term patterns of behavior. The most physically inactive group in the US over the past five years is the under-\$25,000 per year income bracket. Some 46 percent of this cohort reported no to limited physical activity, and the proportion is creeping higher over time (Exhibit 12). Conversely, the most active group was also the highest earning. Just 19 percent of people earning more than \$100,000 a year were inactive over the past five years, and the proportion is decreasing year on year.²⁰

Being aware of the effects of financial distress, the pandemic is more obviously a threat to exercise activity, with most people having taken a hit to their personal finances. Indeed, in one recent survey, 26 percent of Europeans said they expect to see an impact on their incomes for at least another year, while another 15 percent say they will have

Exhibit 12

Prevalence of physical inactivity is significantly higher among lower income groups

2014-2019 Physical inactivity by income in the US



Source: Physical Activity Council - study performed on US population aged 6+ with 18,000 participants

¹⁹ Sport England Surveys April to May 2020

²⁰ 2020 Physical Activity Council's Overview Report on U.S. Participation

“Sporting goods has seen some level of uptake driven by more health concerned customers.”

— C. Browne, COO, Under Armour

less money coming in over 7-12 months (Exhibit 13). The proportions are similar in the US. However, consumers in China were less affected, with most saying the impact on them was short-term.

Another group in danger of pandemic-related inactivity is the young (Exhibit 14). In people aged 6-18 in the US, hours spent playing sport fell by almost 50 percent across a range of activities, including free play, virtual exercise and competition.²¹ One reason is that 64 percent of parents say they have been concerned about the potential health dangers, both for themselves and their children. Another is the lockdown of amateur sports clubs, school sports and other physical education offerings for the young.

Where people have exercised more during COVID-19, they have cited reasons including more time available, new exercise offerings, and awareness of the increased importance of activity for physical and mental health. At the same time, some have raised their spending on sports and exercise products and clothing, including home fitness and online solutions. Companies

such as Peloton and Zwift have seen a spike in revenues during the pandemic.²²

The polarization of exercise trends may come as a surprise to sporting goods industry experts. Some 57 percent of experts in an October survey said they expected COVID-19 had increased overall levels of physical activity.²³ In fact, long-term data shows it is incredibly difficult to move the dial on global levels of physical inactivity over time. Between 2000 and 2020, the prevalence of physical inactivity rose slightly in adult women, from 31.5 percent to 31.7 percent, and fell slightly among men, from 25.5 percent to 23.4 percent.²⁴ The World Health Organization targets a decline of around 5 percentage points (15 percent) in both groups by 2030.

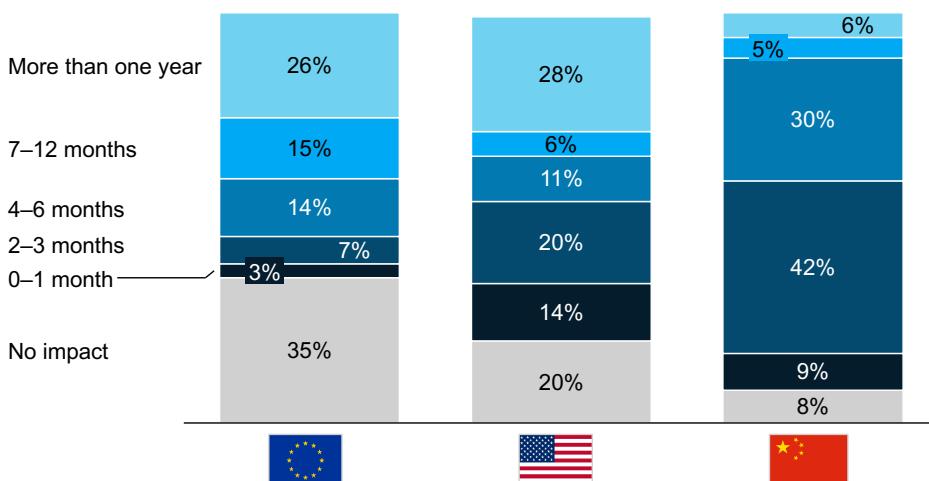
The benefits of exercise are well known and include lower blood pressure and risk of vascular disease, reduced incidence of cancer, and lower risk of diabetes. There are also positive impacts on mental health. All of these feed through into economic and societal benefits,

Exhibit 13

Prolonged financial difficulties due to COVID-19 could potentially increase prevalence of physical inactivity

Consumers across the globe state their finances will be affected in the short and long-run

Impact on personal/household finances¹
% of respondents



1. Q: How long do you believe your personal/household finances will be impacted by the COVID-19 situation? Figures may not sum to 100% because of rounding.

Source: McKinsey & Company COVID-19 Consumer Pulse Survey September 2020

²¹ Aspen Institute/Utah State University Surveys June and September 2020

²² Company financial reports

²³ WFSGI-McKinsey Sporting Goods Survey October 2020

²⁴ Guthold et al., Lancet Global Health, 2016

“Young people are expected to do more sports post-COVID-19, reversing the previous trend.”

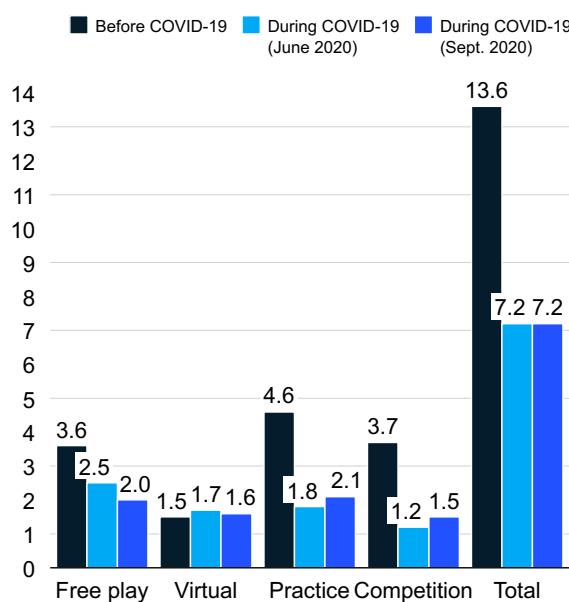
— A. Mizuno, President, Mizuno

Exhibit 14

COVID-19 has particularly reduced physical activity amongst the youth due to lockdown restrictions

Youth sport participation in the United States

Hour spent playing sport has decreased by almost 50% during COVID-19
Hours spent playing sport per week by Youth Ages 6-18



Source: Aspen Institute/Utah State University surveys

including higher economic output, for example from reduced sickness and increased productivity, as well as lower healthcare costs. A report published by Sport England and Sheffield Hallam University in August 2020 concludes that “for every £1 (\$1.30) spent on community sport and physical activity in England, an economic and social return on investment of £3.91 is generated.”

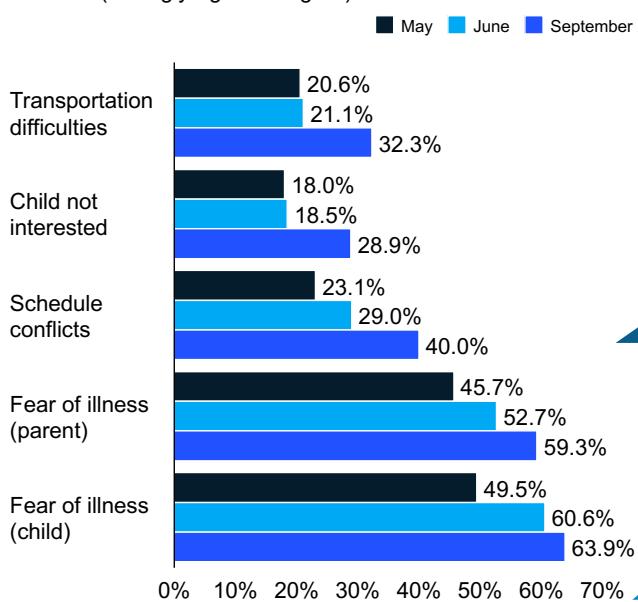
The good news is that, despite the impacts of the pandemic, several demographic trends suggest an upwardly sloping curve on exercise. Globally, the consumer class is expanding as emerging market economies continue to develop. This is leading to increased health awareness, and more leisure time for consumers to invest in their well-being. In addition, longevity is increasing, and older citizens are seeing that exercise can help them extend their active lives. Some governments are also playing their part, offering incentives to fitness providers and nudging consumers to look after themselves better. Finally, the number and variety of physical activities is rising — there is more chance for

everybody to do something, whatever their levels of energy and ability.

Looking forward, encouraging more activity will require a multi-stakeholder approach. This will mean that governments could ramp up incentivization schemes and funding for sports and other physical pursuits. Sports organizations and federations can play a role in increasing awareness and supporting participation. The sporting goods industry can also help, leveraging their powerful brands to encourage activity at all levels, as well as providing products and services for people of all incomes. On the macro level, agencies such as WHO and UNESCO should stay engaged, and where possible facilitate funding. Educational institutions should ensure that they find space for physical activity and research in their curriculums.

Finally, the private sector can work to improve the health of employees and their families. Through these efforts, society has a chance to get off its collective couch and, as the pandemic recedes, enjoy the benefits of physically active lifestyles.

64% of parents state that they are concerned their child would get sick by resuming sports
Potential barriers to resume sports when restrictions are lifted (Strongly Agree or Agree)





Sustainability — the COVID-19- accelerated Next Normal





Sustainability has become table stakes for the sporting goods industry, amid a much sharper consumer focus caused by the COVID-19 pandemic. However, recycling is likely to be a bottleneck, suggesting brands look to look to other aspects of circularity to compete.

67%
of consumers consider the use of sustainable materials as an important factor when it comes to purchase decisions

Source: McKinsey COVID-19 Apparel Survey 2020

Sustainability is set to move from the margins of the sporting goods industry to front and center, with companies under rising pressure to ensure their products, operations, and supply chain relationships meet the highest possible standards, both in terms of climate change and issues such as labor rights. Today, more than two thirds of consumers say that they consider sustainability issues when making purchasing decisions, and the number will likely rise in 2021.²⁵

While consumers are concerned about all aspects of brands' sustainability credentials, their sharpest focus is on materials – which they want to know have been produced using sustainable processes. Consumers also want brands to walk the talk – to embed sustainable principles in their operations – actively promoting the importance of meeting our current needs without prejudicing the needs of future generations.

Given these priorities, many sporting goods brands have put sustainability at the top of their strategic agendas, with the online market leading the way. In the digital space, sporting goods brands lifted net new sustainable SKUs to 72,000 in 2020, compared with 18,000 in 2012, amounting to a rise of 58 percent a year (Exhibit 15).²⁶

The surge in appetite for sustainable options, from both consumers and investors, means that green credentials have become table stakes in many markets.

²⁵ McKinsey Consumer Sentiment Survey on Sustainability in Fashion April 2020
²⁶ EDITED analysis

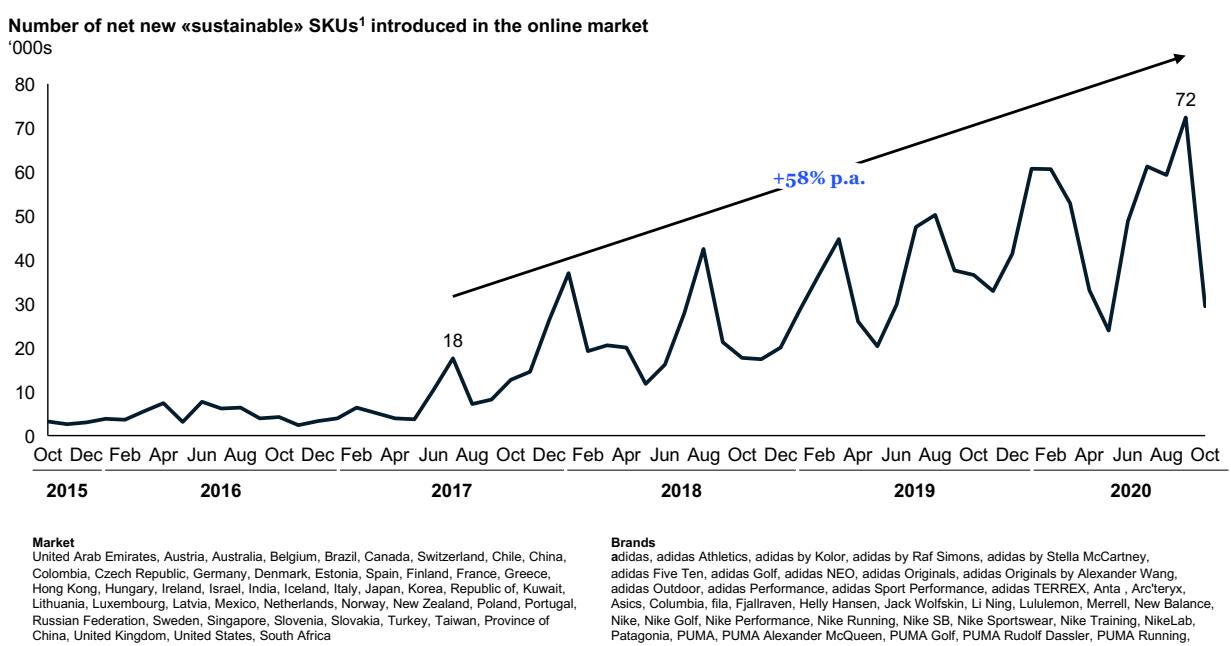
“Sustainability is now part of the cost of entry, it cannot be an afterthought.”

— C. Browne, COO, Under Armour

Exhibit 15

Increasing numbers of sustainable SKUs

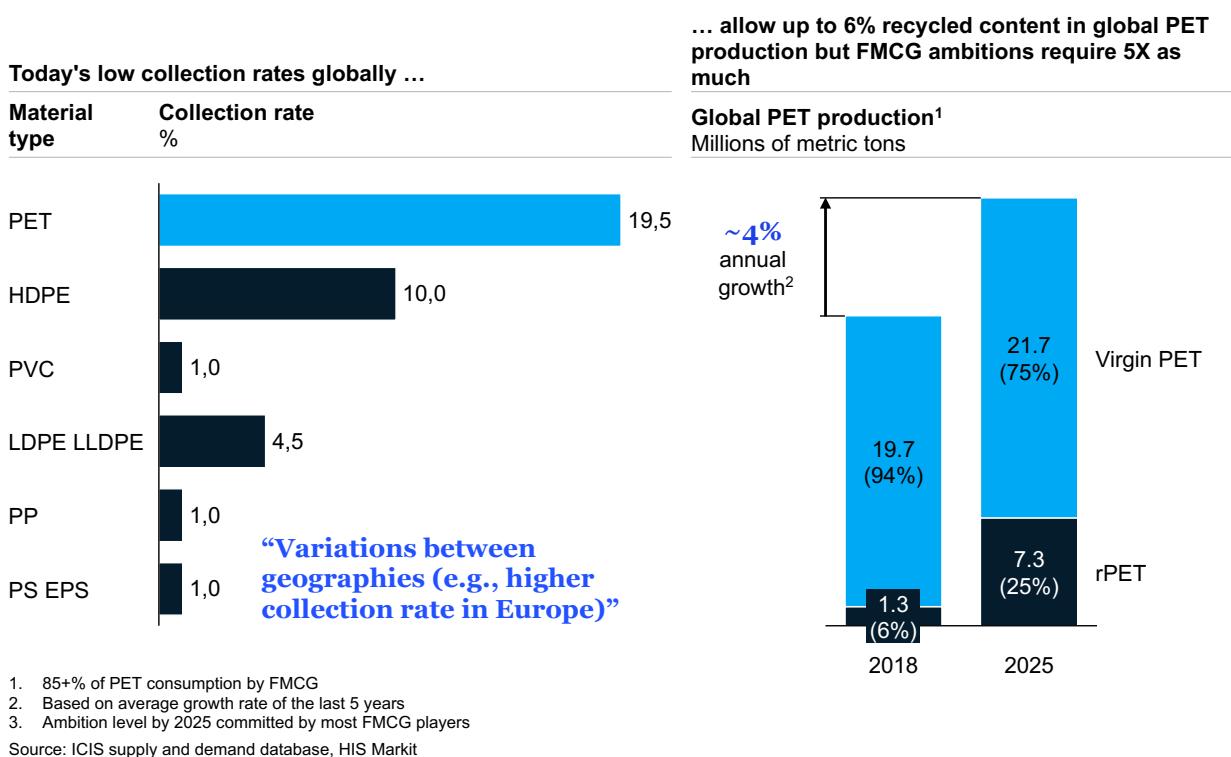
Analysis of OECD + 10 countries and key sporting goods brands



1. Keywords used: Environment, Environmental, Eco, Eco-friendly, Organic, Recycled, Sustainable, Sustainability

Source: EDITED analysis

Recycling constraints will create competition with other industries



“A main sustainability effort is in packaging, using plastic-free and recyclable materials.”

— C. Salmini, Co-Founder and CEO, SHRED



Many companies are building out their propositions with reference to the UN Sustainable Development Goals, which provides a structure for targets and processes at 64 percent of companies, the WFSGI-McKinsey Sporting Goods Survey shows.²⁷ Just one in 10 companies says that it is not trying to become more sustainable. A nuance in this trend is that a few companies have been forced to take their eyes off the ball as they have tried to manage through the damaging impacts of the pandemic.

While attitudes toward sustainability have evolved over time, the COVID-19 pandemic has accelerated the pace of change, with consumers drawing stronger connections between human actions and damage to natural and socioeconomic systems. Some 88 percent of respondents to one survey say that, since COVID-19, they believe we need to pay more attention to reducing pollution, and 56 percent take personal

responsibility – saying they should do more themselves to limit their impacts on climate change.²⁸

Responsible attitudes are also feeding through to purchasing behaviors, with Gen Z slightly ahead of other age groups in connecting purchasing decisions with factors including the use of sustainable packaging, the retailer's sustainability credentials, and companies' attitudes toward employees.²⁹

The key area of activity for sustainability strategies is the supply chain. Less than 10 percent of materials in the global apparel supply chain are currently from sustainable sources, and the industry still relies to a large extent on resource intensive raw materials such as plastic and cotton.³⁰ There is also a persistent focus on volume rather than price, leading to overproduction and excessive use of landfills. More than 50 percent of items end up in landfills or are incinerated.

²⁷ WFSGI-McKinsey Sporting Goods Survey October 2020

²⁸ McKinsey Consumer Sentiment Survey on Sustainability in Fashion April 2020

²⁹ McKinsey COVID-19 Europe Consumer Pulse Survey June 2020

³⁰ Circular Fibres Initiative analysis

“Circularity of products through reuse and complete recycling is becoming critical.”

— A. Descours, Chief Sourcing Officer, PUMA

However, even with the best intentions, there are constraints on availability of recycled input material, with large FMCG players also tapping into these limited resources. With FMCG players committed to reach 25 percent rPET use by 2025, production needs to grow fivefold just to service that demand. This will leave limited recycled input material for many sporting goods players (Exhibit 16).

To satisfy consumer demand for sustainable products, the industry will likely need to invest in circular business models, both for fabric sourcing and product end of life. The transition will not be easy — collection rates for materials such as HDPE (High-density polyethylene) and PVC are 10 percent and 1 percent respectively, and even at the top end of the scale (polyester) just 20 percent is collected.³¹ In addition, the recycling process is often sub-optimal. Global polyester production is growing at 4 percent, but just 6 percent of new material is recycled — so-called rPET.³² The fast-moving consumer goods sector aims to lift that proportion to 25 percent, a demand trend which could present a challenge for sporting goods firms trying to get hold of recycled material. To boost availability, business leaders will likely need to ramp up action in order to increase collection and sorting. They may also look to alternative approaches such as closed-loop recycling, which consists of

“The wave of recycling and reusing is coming.”

— A. Zanatta, CEO, Tecnica Group

recycling the industry's own materials after use (Exhibit 16).

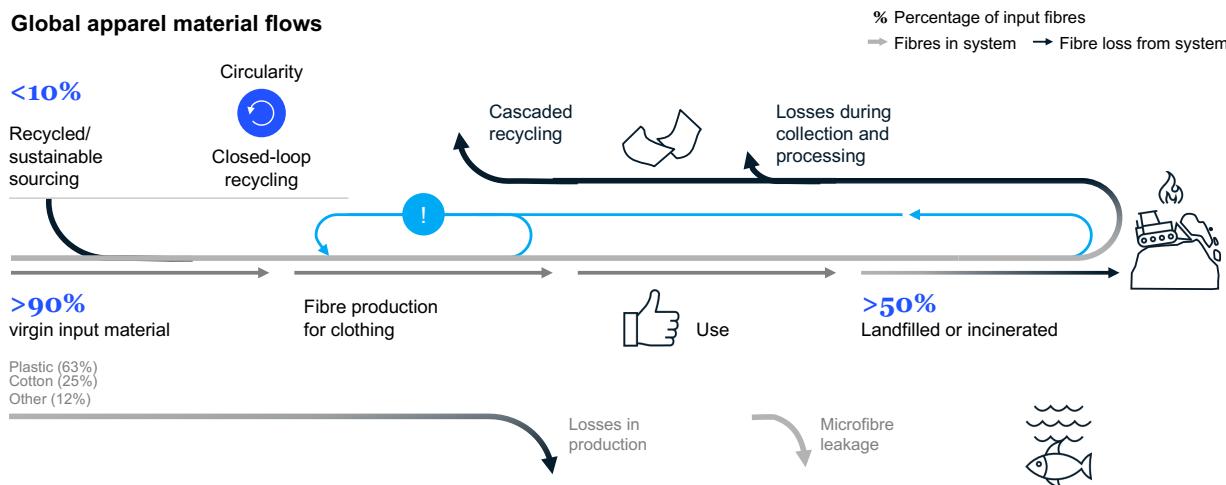
Recycling of sporting goods products offers significant promise, if the industry can overcome the significant challenges that include incentivization of consumers to return goods at the end of life, and technology advancements to improve recyclability.

Some companies are moving ahead. In September 2020, Switzerland-based On Running launched a pilot subscription-based service to bring fully recyclable (castor beans based) sportswear to its customers worldwide. The service, called Cyclon, will allow subscribers to receive and wear the latest running shoes and then return end-of-life products back to On, in exchange for the latest version. This kind of strategy could provide a blueprint for circular business models going forward. Certainly, winners will likely test these kinds of approaches with their customers, aiming to develop working business models for sustainability.

Exhibit 17

Closed-loop recycling is a viable alternative

Global apparel material flows



Source: Circular Fibres Initiative analysis

³¹ ICIS supply and demand database

³² HIS Markit

— Viviane Gut, Head of Sustainability, On AG

Can you tell us what the Cyclon shoe is, and what makes it special?

Cyclon is the first high-performance running shoe that is fully recyclable and only available through a subscription model. The shoe is made out of two high-performing polyamides that can be recycled together. With Cyclon, we want to show that sustainability and performance are not exclusive but are in fact complimentary.

Why is On Running launching the Cyclon shoe?

One of the biggest challenges in the fashion/sporting goods industry is the linear lifecycle of products and the resulting circa 13 million tons of waste

annually. Products are designed to be thrown away, which is absurd if you think about it. We want to change this approach by creating products that are designed to be recycled and have a truly circular lifecycle. Obviously, we are not the first ones tackling this problem, but we are willing to take some risks and see it as a journey. Sustainability is complex; many things are so new, and data availability on the environmental impact of certain materials is scarce. However, despite all these challenges, the most important aspect for us is to take a leap – the alternative of waiting for the problem to be solved by itself is simply not an option.

What challenges did On face in developing a “circular” shoe?

First, finding materials that are high-performing but also fully recyclable has been a real ask. We worked together with our partner Arkema and we found two polyamides that can be recycled together while having a proven performance record in the industry.

Second, we had to design a shoe that enables maximum recyclability of

materials, but at the same time limits material use. We tasked our product design team with finding new, creative solutions wherever possible – for example, the upper part is a one-piece knitted, enabling minimal waste.

Third, we had to set up a system that guarantees the maximum number of shoes are actually sent back. This is critical since we need the material back to make new Cyclones. We have seen other circularity projects fail exactly because a functioning back-loop was not in place. This is where the subscription model comes into play. We have to see whether consumers will adapt to this new model of using but not owning a shoe and will find out more in the coming months.

What do you think needs to happen for circularity to become widespread in the industry?

I believe brands have to take responsibility, not just to design and produce circular products, but also to organize what will happen with the product after use, i.e., creating effective back-loop systems.

From an environmental economics point of view, externalities like air pollution, waste, or wastewater need to become more expensive. We already see governments discussing or implementing changes that will create a more balanced economic model, in which finite natural resources are priced more accurately and creating waste is more expensive. This will provide incentives for circularity and make recycling materials competitive.

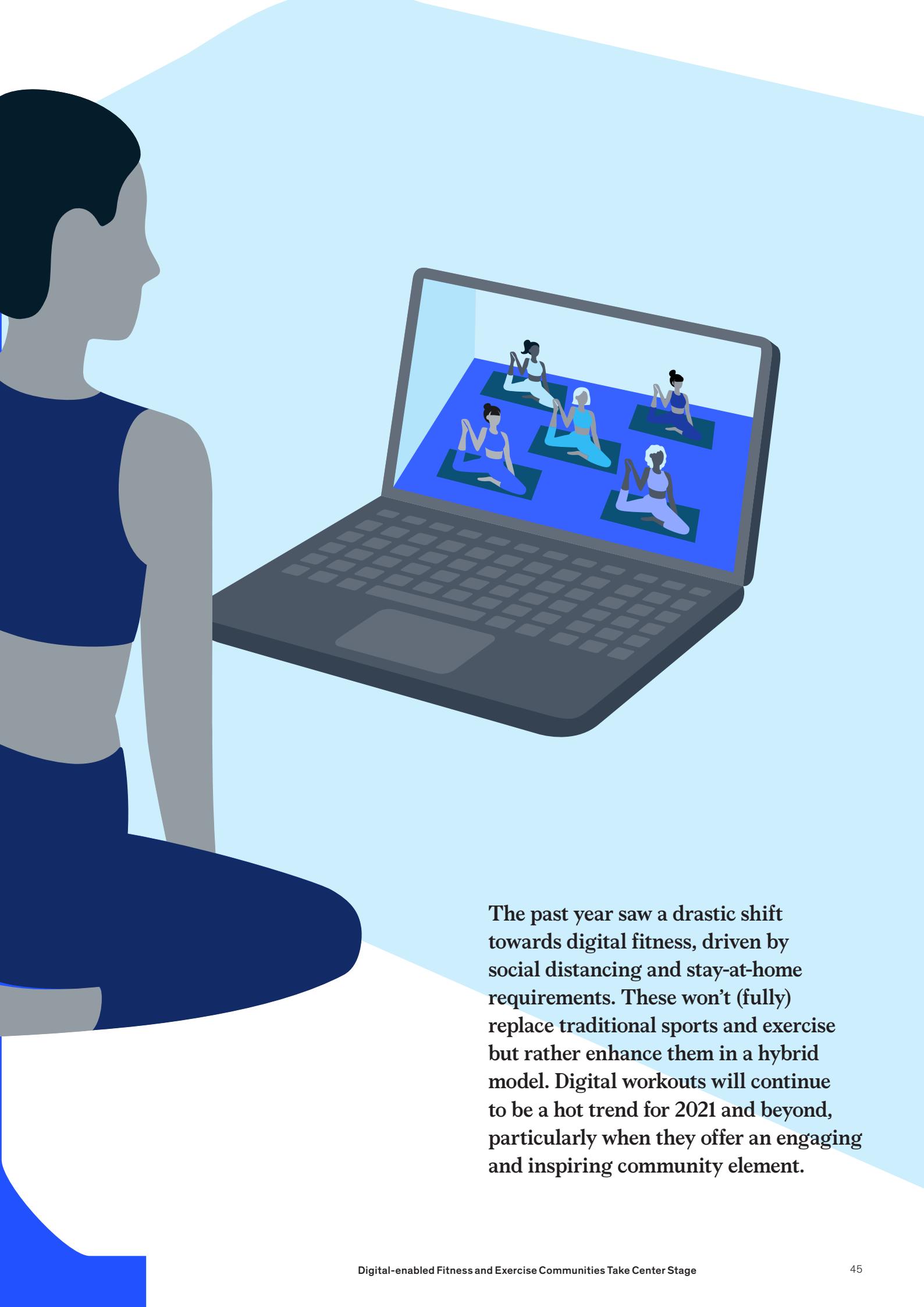
Finally, and without this part the entire system of circularity won't work, consumers must be willing to change their behaviors and move away from owning towards renting or sharing.



— Viviane Gut

Digital-enabled Fitness and Exercise Communities Take Center Stage





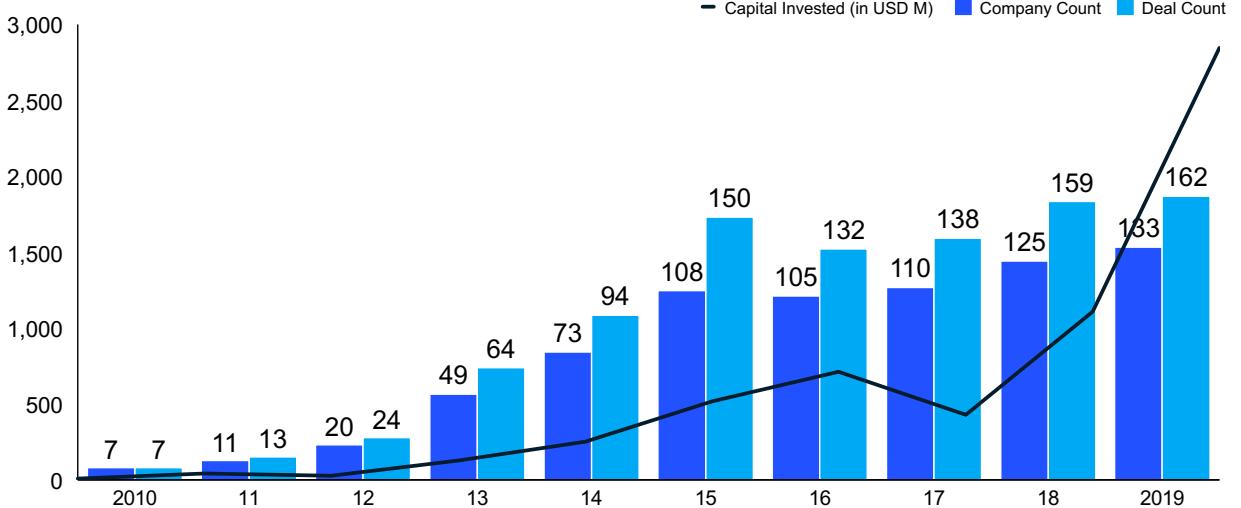
The past year saw a drastic shift towards digital fitness, driven by social distancing and stay-at-home requirements. These won't (fully) replace traditional sports and exercise but rather enhance them in a hybrid model. Digital workouts will continue to be a hot trend for 2021 and beyond, particularly when they offer an engaging and inspiring community element.

“Physical activity is evolving, leading to new business models of connected fitness.”

— A. Arana, SVP/General Manager Global Product - Training, Running, Core Apparel & Accessories, adidas

Exhibit 18

Venture capital investment in digital has risen sharply



Note: Criteria leverage: Status: VC-backed
 Keywords: connected fitness; fitness training app; fitness app; workout app; fitness tech; workout application; fitness application platform; fitness platform; fitness application developer; fitness application; fitness tracking; fitness tracking application; fitness tracking platform; fitness tracking app; fitness software; fitness mobile application; online fitness platform; mobile fitness application; fitness data tracker; fitness tracker; fitness tracking device; fitness tracking technology; personal fitness application; workout tracker; fitness monitoring device; fitness technology; fitness platform operator; activity tracker; fitness training application; fitness training platform; personal training app; personal training application; fitness device; fitness tracker wristband; wearable band; fitness platform developer; fitness app developer; fitness software system; wearable smartwatch; activity tracking device; mobile fitness; sleep tracker; fitness analytics; mobile fitness technology; sleep tracking device; connected fitness equipment; mobile fitness app; Include Active Positions

Source: Pitchbook

³³ McKinsey Fitness Survey April 2020

³⁴ Pitchbook research

³⁵ McKinsey Fitness Survey April 2020

³⁶ McKinsey COVID-19 US Consumer Pulse Survey August 2020

Digital fitness was on the rise pre-COVID-19, with the volume of invested capital increasing six times in the two years from 2017 (Exhibit 18). However, over the past year there has been a dramatic rise in demand for digital solutions. With large parts of the world locked down, consumers have become more committed to home workout routines as a means to maintain their fitness while staying safe from the virus.

Some 26 percent of consumers in one US survey said they used paid apps for fitness during the pandemic, compared with 9 percent pre-lockdown, while 26 percent viewed streams, compared with 16 percent previously.³³ This spike in demand does not represent a step change from before COVID-19; rather an acceleration of trends that were already in play. These are also reflected in investment flows. Indeed, the value of venture capital flows into connected fitness solutions rose six-fold in the three years to 2020, reflecting the potential of a segment that plays into many of the themes of the decade — personal care, sustainability, and compelling social experiences. There were 162 venture-

capital backed deals in 2019, the highest number on record. By comparison there were just 24 in 2012.³⁴

Still, many digital offerings did not provide the same levels of satisfaction to consumers as their pre-lockdown alternatives. Just 46 percent of survey respondents said they were satisfied with their routines during lockdown, compared with 70 percent prior to 2020. Still, while many gym-users lamented the loss of their gym communities, they saw that digital provided an acceptable alternative (Exhibit 19).

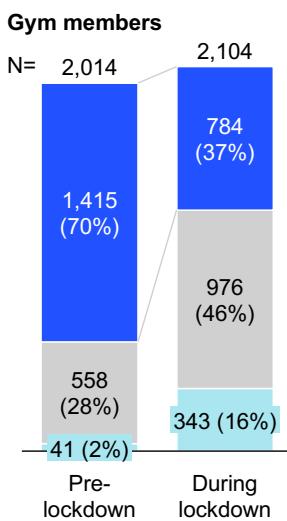
Looking forward, the consumer survey suggests that consumers will return to their gyms when they can. However, many will aim for a ‘bionic’ experience. Indeed, 53 percent of members of a leading US gym chain plan to complement their gym routines with digital and other equipment (Exhibit 3).³⁵ The survey reflects broader consumer research that suggests online fitness and wellness are here to stay. On average around 60-80 percent of US consumers say they will probably continue to use their favorite devices after COVID-19.³⁶

Exhibit 19

After gym closures, many consumers engaged with digital fitness tools

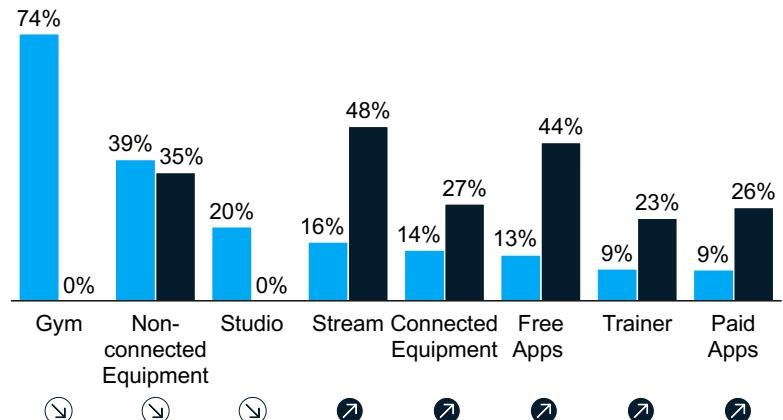
Satisfaction towards fitness routine¹
% of respondents

■ Satisfied ■ Neutral ■ Dissatisfied



As consumers could not access the gym, the started using digital fitness tools
% of respondents engaging in each activity (members of a US gym chain)

■ Pre lockdown ■ During lockdown



“When the gym closed I both lost my regular fitness routine and the spirit of community I had with my training buddies”

– Gym user

Source: Fitness survey at major US gym chain April 2020, n = 2,855



“People seek community, even when they are at home.”

—J. Preston, CEO, New Balance

Two important drivers of gym and studio exercise returns post lockdown are the community and incentives these provide. Digital offerings that were able to replicate these factors during the crisis saw as much as four times the average level of demand. Big winners included Nike ecosystem, Peloton, and Zwift. We expect the trend to persist after the pandemic.

Nike laid the foundations of its interactive offering more than a decade ago, offering wearable devices that kept people informed of their daily activities. The company has expanded on those early efforts in recent years, creating a digital network of connected devices under its NTC (Nike Training Club) and NRC (Nike Run Club) labels. These in turn have driven higher levels of traffic to its product ranges, particularly in China.³⁷ Indeed, Nike's success was in linking its digital engagement ecosystem to its online/direct sales channel, thereby translating engagement into revenue.

“The strong engagement of Chinese consumers with our activity apps translated to strong engagement with our Nike commerce app,” CEO John Donahoe said on an earnings conference

call. As a result, Nike's digital business in China grew more than 30 percent during the first quarter and “maintained strong momentum throughout this challenging period.”³⁸

Home social workout company Peloton, meanwhile, saw an impressive 333 percent increase in workouts on its home exercise bike in the fourth quarter of 2020, compared with the fourth quarter in 2019. Exercisers rushed to join

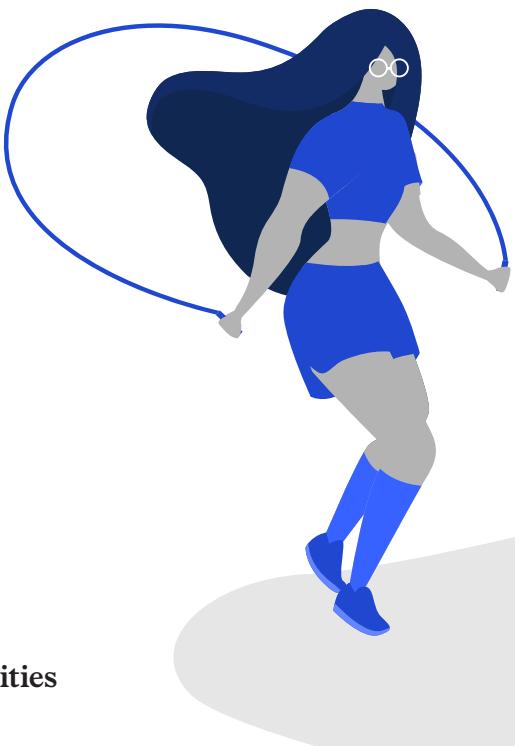
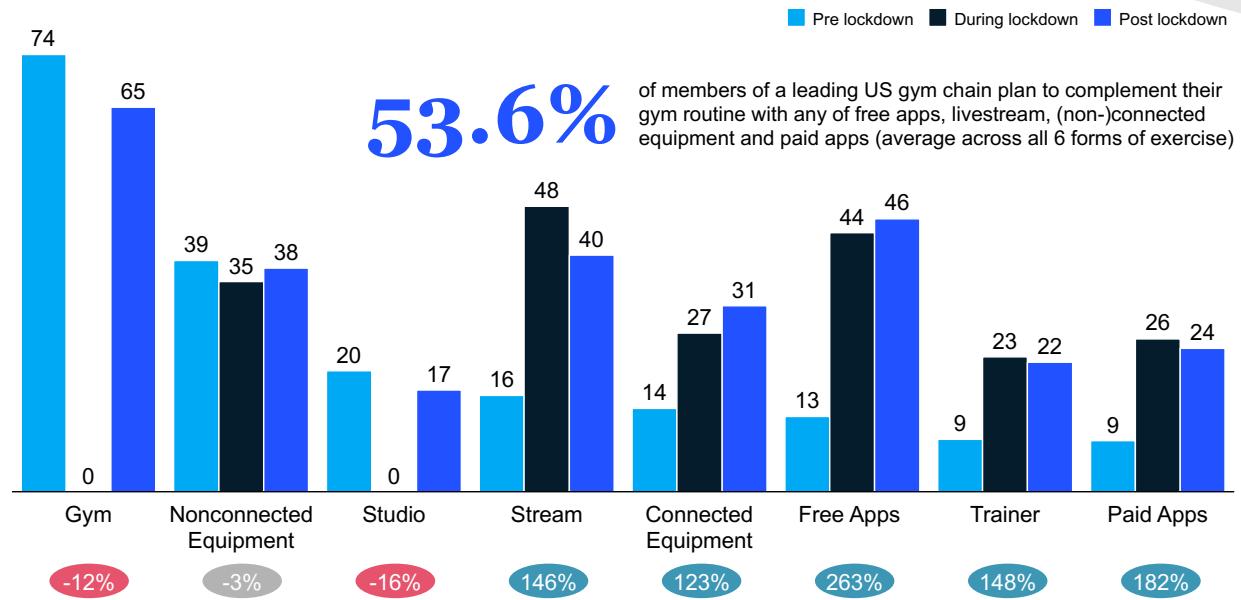


Exhibit 20

Exercisers will combine traditional equipment with digital activities

% of respondents engaging in each activity



³⁷ “Nike learned a lesson in China: Some want to sweat away their coronavirus stress”, CNBC, March 2020

³⁸ “Nike learned a lesson in China: Some want to sweat away their coronavirus stress”, CNBC, March 2020

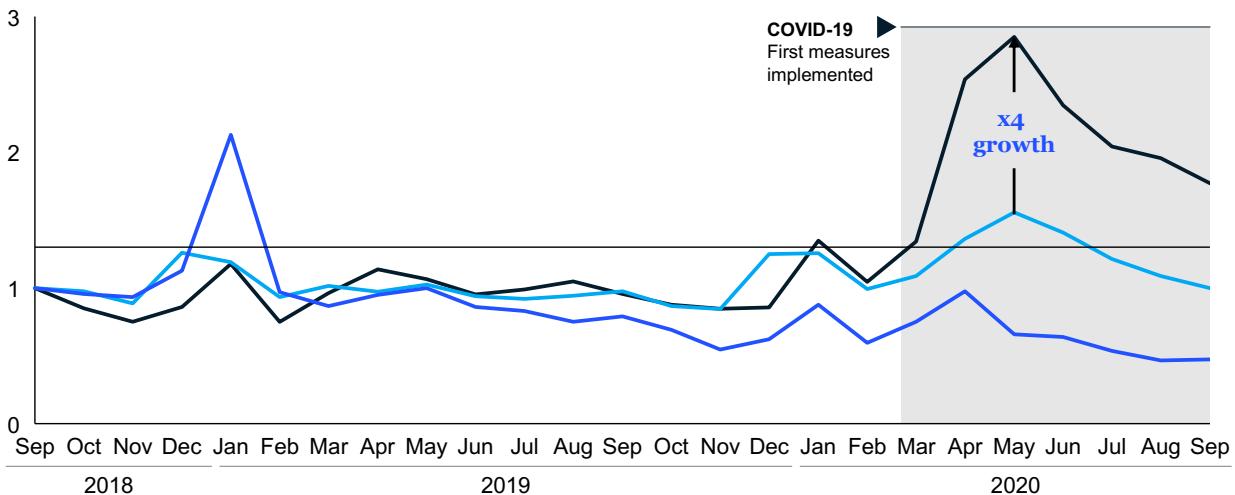
The most successful fitness apps offer a community

Downloads of health and fitness apps spiked in Q2 2020

Fitness & health apps downloads, Sep 18-Sep 20

Indexed

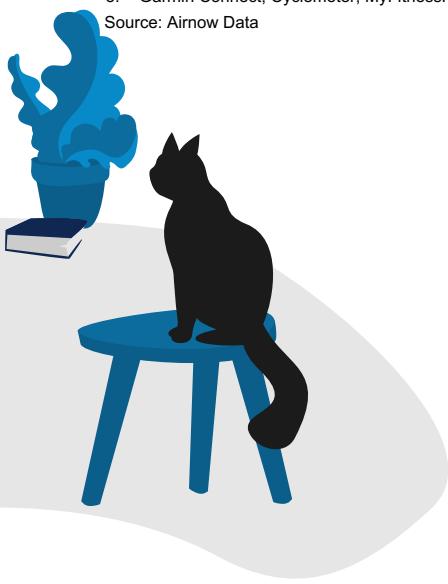
— Community — Tracking & sharing — Training



Note: Downloads include Google Play Store as well as Apple App Store

1. Peloton, Aaptiv, Seven – 7 Minute Workout, Fitbit Coach, adidas Training and Running by Runtastic, Nike Training Club, Nike Run Club, Zwift
2. Komoot, Bikemap, Wikiloc Outdoor Navigation, Outdooractive: Walks & Biking, ViewRanger, Strava
3. Garmin Connect, Cyclemeter, MyFitnessPal, Fitbit, Polar Beat

Source: Airnow Data



“It is key to understand how sports and gaming fit together.”

— G. Musciacchio, Co-CEO, arena Group

its online spin classes, which reproduces the experience of a physical class, therefore providing a similar sense of community.³⁹ One class in April attracted 23,000 participants. In addition, Peloton Initiatives such as live competitions caught the imagination of consumers, helping the company post a 172 percent increase in revenues in the fourth quarter, compared with the first.

Cycling app Zwift employed a similar business model to Peloton, leveraging its virtual racing platform to bring users together in order to create excitement and engagement. It saw its monthly downloads rise 168 percent between May 2019 and May 2020, as cyclists bought into its blend of fun videos and serious workouts.⁴⁰

Notably, health and fitness apps were not just more popular during the pandemic — they were also most popular, seeing a 27 percent increase in demand in March, compared with 2 percent across the top 1,000 apps. Often, they were bought in tandem with

other health-focused items, such as smart at-home equipment, wearables, and non-connected equipment such as mats and weights. Companies including TacX, Fitbit, and WHOOP were some of the beneficiaries.⁴¹

Given the success of digital and at-home solutions during the pandemic, the critical question for companies in the segment is whether demand will continue to rise once the crisis abates. In October, the majority of industry executives were optimistic on the future of digital, with 63 percent saying it was unlikely that consumers will return to gyms in the same numbers as before the pandemic.⁴² We therefore expect that digital fitness and related offerings — especially those offering community and incentive elements — are likely to continue to perform well in the coming period. Winners will focus on these, and then translate engagement into sales.

³⁹ Company financial reports

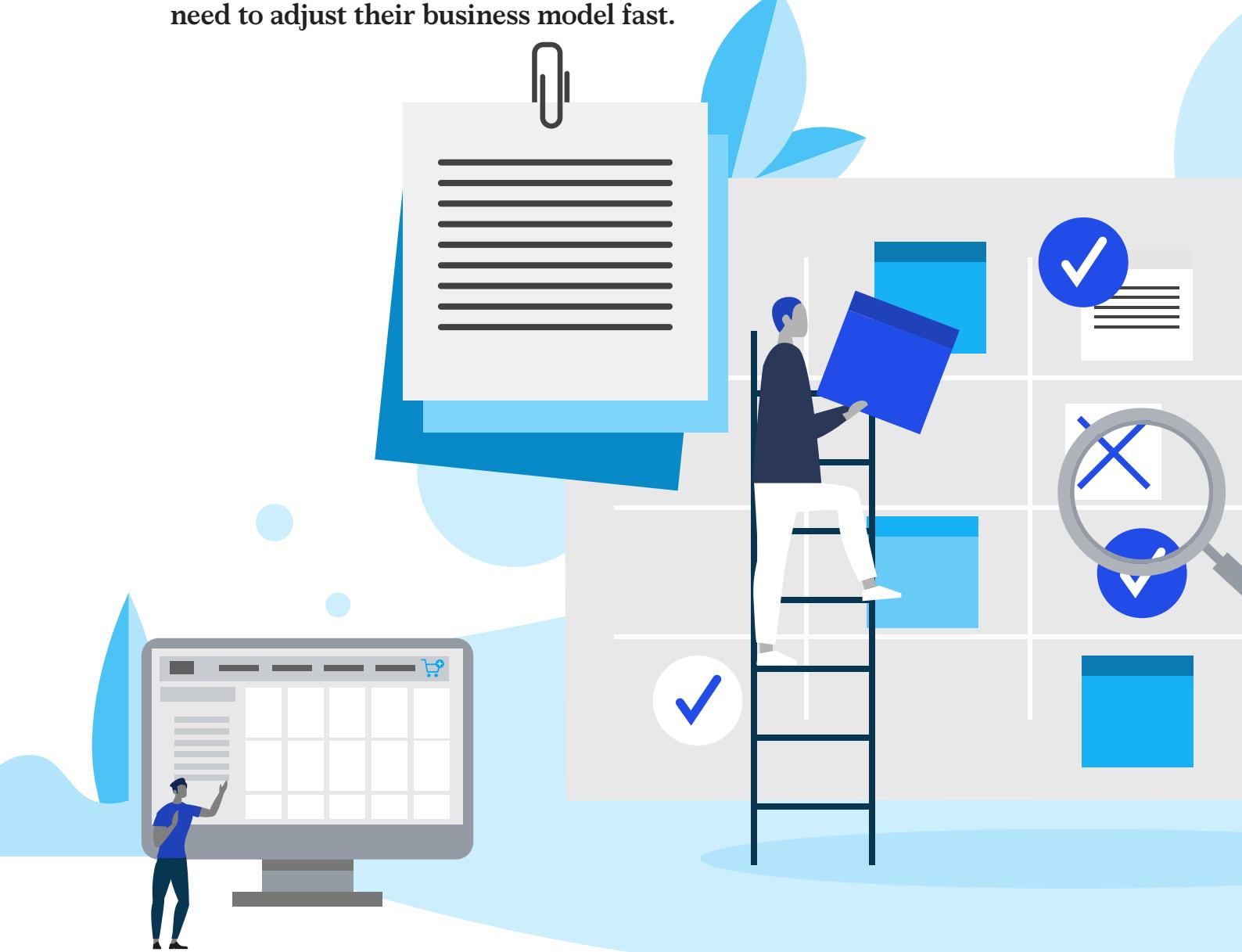
⁴⁰ Airnow Data

⁴¹ Airnow Data

⁴² WFSGI-McKinsey Sporting Goods Survey October 2020

Leap Forward in Online — Accelerating Business Model Shift to DTC

COVID-19 related store closures lifted the online growth curve to a new level, enabling multiple brands to grow e-tailing and even direct-to-consumer sales. With online penetration expected to stabilize at ~25 percent in 2021, six times higher than before COVID-19, brands and retailers need to adjust their business model fast.





In this tumultuous period, digital commerce has taken center stage — posting spectacular gains in market share and establishing itself at the heart of the shopping experience. After the recent period of outstanding growth, we see digital penetration remaining strong in 2021, and a necessary shift to direct-to-consumer (DTC) business models. For companies still focused on wholesale, there is little time to waste in making the transition to a digital-first proposition.

Over the course of 2020, digital has matured into a star performer. Prior to the pandemic, online sales growth averaged at around 2 percentage points a year.⁴³ Since the beginning of the pandemic, this figure increased to 16 percentage points in six months. In some cases, the increase was significantly higher: Lululemon, perhaps the first true DTC sporting goods brand, made more than 50 percent of their sales via digital in the first six months, and peers including adidas, Columbia and Sketchers were on similar trajectories.⁴⁴ In sporting terms “e-commerce hit the homerun.”

Digital was boosted both by increased activity among existing users and a wave of newcomers. Some 43 percent of consumers who had not shopped online previously started to do so during the pandemic. Moreover, a recent

“The shift from B2B towards B2C business model recently accelerated, driven by consumers that want to interact with brands directly.”

— A. Zanatta, CEO, Tecnica Group

McKinsey survey shows that in many cases the shift is permanent: Some 28 percent of respondents say they will reduce their use of physical channels going forward.⁴⁵

⁴³ Company financial reports; Company presentations; Press; Analyst reports; ecommerceDB; CapitalIQ

⁴⁴ Company financial reports

⁴⁵ McKinsey COVID-19 Europe Consumer Pulse Survey September 2020

“The shift towards DTC is difficult and requires fundamental change in company structure, mindset, expertise and knowledge.”

— J. Zheng, Executive Director and Group President of ANTA Sports and President and CEO of Amer Sports

The digital-first trend is strongest among younger consumers. Some 84 percent of Gen Z (born between 1996 and 2010) who had not previously shopped online started to do so during the pandemic (Exhibit 22).⁴⁶ Conversely, just 19 percent of baby boomers dipped their toes into digital for the first time. Still, across all groups, there was a similar level of determination to make the change stick, with intended net migration away from physical channels running at 10-15 percent.

In 2021, executives expect to see online penetration hold steady at around 25 percent of sales, representing a doubling of share since 2019 (Exhibit 23). Put another way, the segment achieved growth predicted for six years in just two, with major names include adidas, Nike, and DICK's Sporting Goods all seeing big jumps in digital sales.

In light of these significant changes in the channel landscape, how should sporting goods companies respond? Research suggests a fundamental shift from a wholesale to DTC approach will be necessary and require significant business model transformations. A

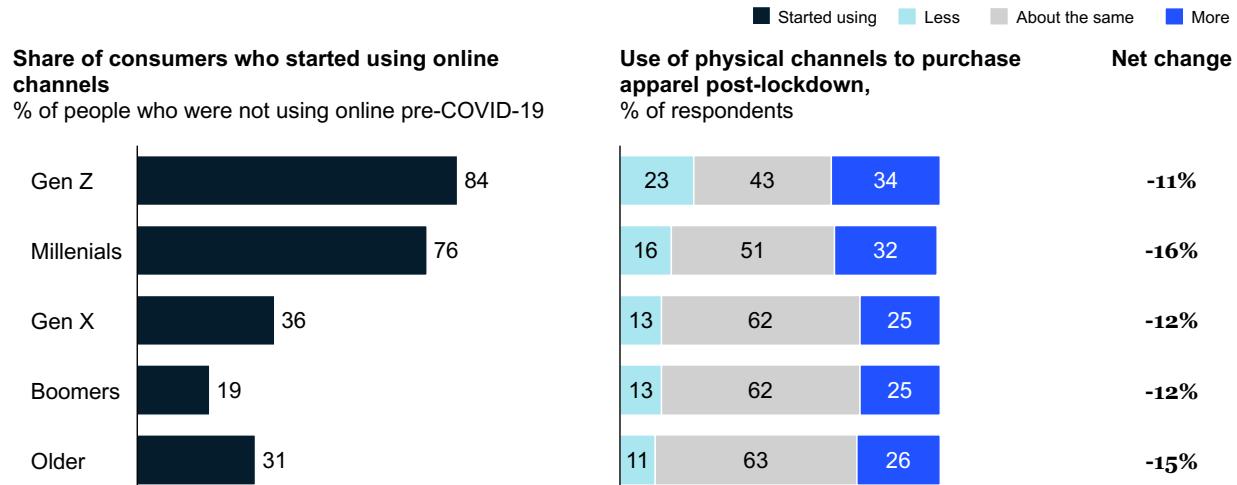
necessary precondition is to ramp up digital capabilities — elevating e-commerce, embracing direct-to-consumer models, and combining the best of digital and physical.

In the past, it was often sufficient for companies to focus on wholesale and then add a DTC e-commerce offering. In future, that is unlikely to be enough. Companies must transform the fundamentals of their business model, which means creating an engaging digital store and aligning the company's strategy, and business and operating models, with digital ways of working. This will require a shift in culture and mindset and must be backed by digital expertise to enable an agile response to fast-changing consumer needs.

If brands are looking for lessons on creating digital-first propositions, a good place to start is China, which has taken the lead on combining e-commerce with physical and social experiences.

Exhibit 22

Younger consumer segments are at the digital vanguard



Source: McKinsey COVID-19 Apparel Survey 2020

⁴⁶ McKinsey Consumer Sentiment Survey on Sustainability in Fashion April 2020

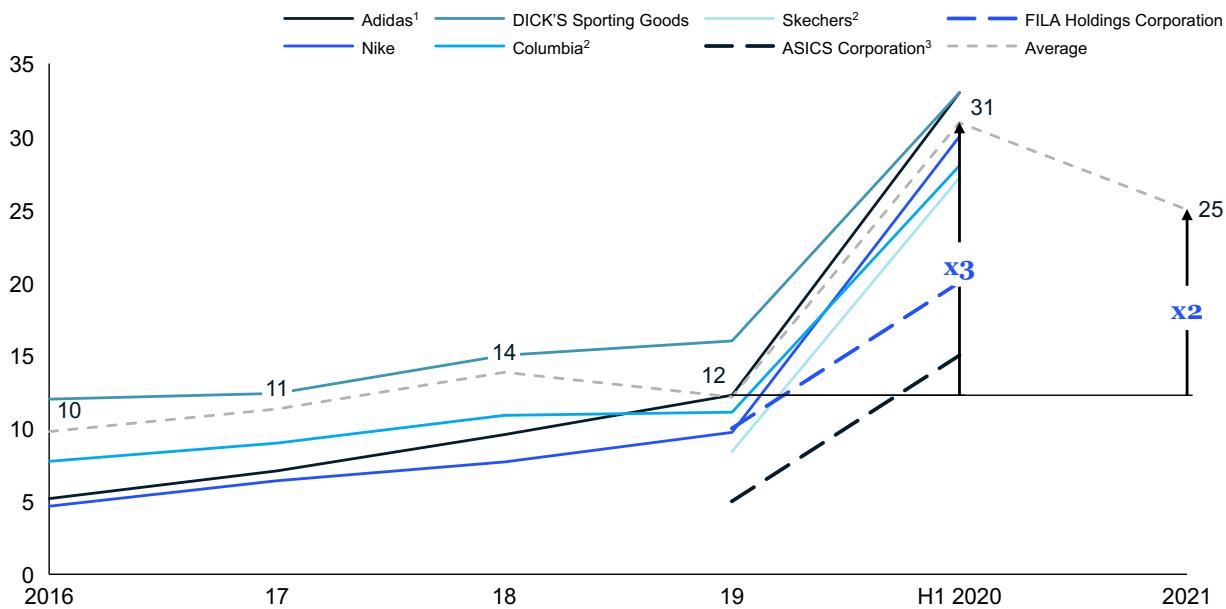
“Starting from scratch, without partnership obligations towards retailers, SHRED would consider going DTC only.”

— C. Salmini, Co-Founder & CEO, SHRED

Exhibit 23

Online penetration to stabilize at ~25% in 2021

Online sales share³ %



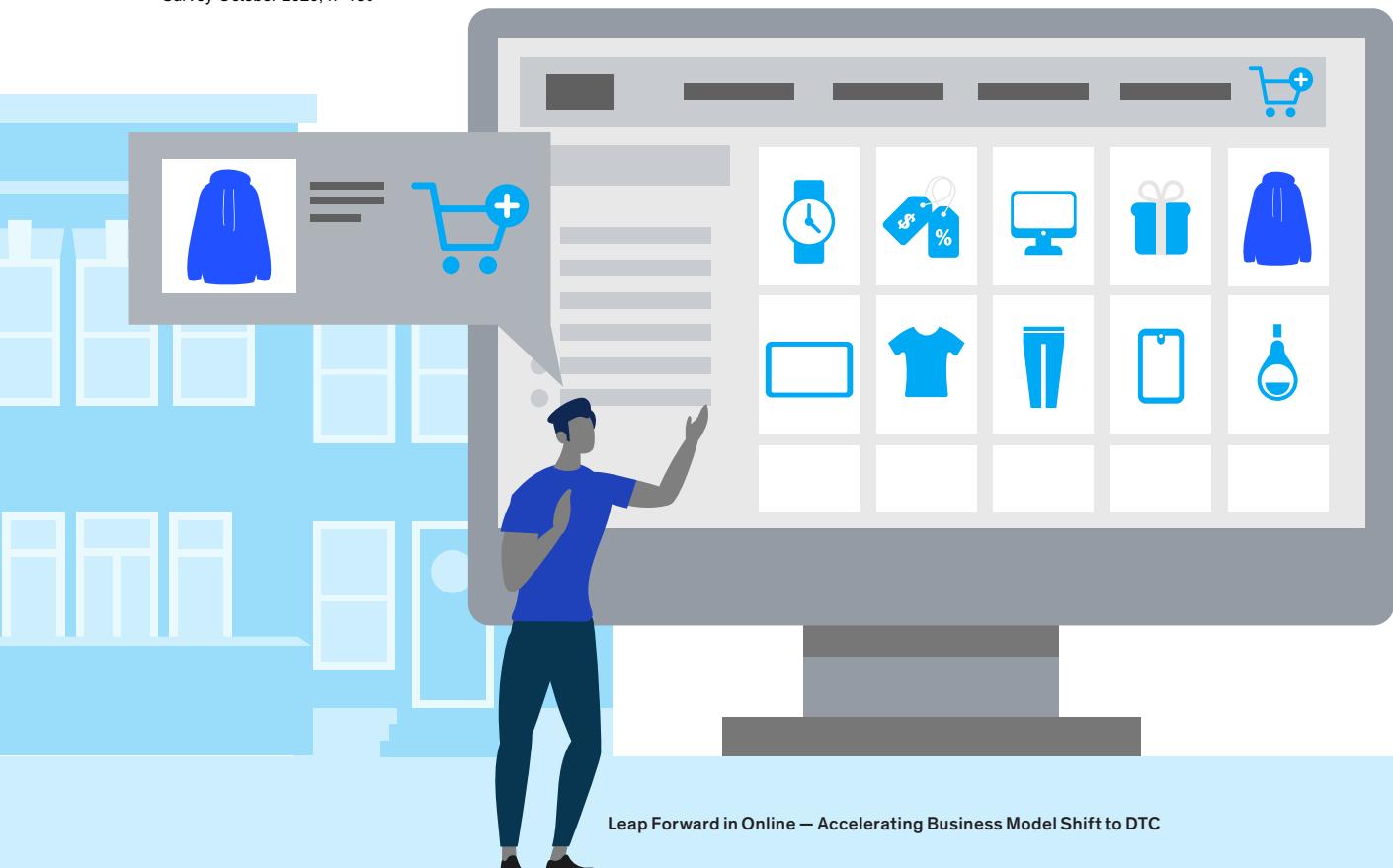
1. Own ecommerce

2. Ecommerce sales share for the US domestic market

3. Ecommerce sales share for the South Korea domestic market; ecommerce sales share as for Q1 2020, analyst report estimate

4. Lululemon excluded from this analysis as outlier compared to rest of the industry

Source: Company annual reports, Company presentations, press, analyst reports, ecommerceDB, CapitalIQ, WFSGI + McKinsey & Company Sporting Goods Survey October 2020, n=130



— James Zheng, Executive Director and Group President, ANTA Sports, and President and CEO, Amer Sports

What is the biggest change that COVID-19 has brought for the sporting goods industry?

The acceleration of the digital world. During lockdown, online suddenly became the only available channel in many countries. And in the future, e-commerce will become the single most important channel for many sporting goods brands around the world, while direct to consumer (DTC) will become a critical success factor for every brand.

What will be the deciding factor for winning in this accelerated digital and direct to consumer reality?

Most sporting goods brands already have their own e-commerce store. However, the operating model they

are running is often still a traditional wholesale model. A website alone does not make a successful DTC model. The whole company setup has to evolve. So far, most players do not have an integrated DTC model. On top of building an appealing online store, they need to adapt their strategy, business and operating model to address consumers directly. And in this, the industry is still at the very beginning.

It's a much bigger shift that is needed, certainly. And what do you think are the biggest challenges that brands must overcome to become more direct?

We have to start with a mindset change. Few executives really understand how to run e-commerce in an effective way. Many are still stuck in the wholesale mindset. A second challenge is building expertise and knowledge and shifting resources from wholesale to DTC channels, especially in sales. More direct strategies require a different resource distribution. This decision requires tremendous courage and decisiveness.

So, what will characterize a successful brand in the new digital world?

Let's take Lululemon. They have a distinct business model, because they started as a DTC company: they run their own physical shops and have a strong presence in the digital world. They are doing well because they see e-commerce as a core element in their integrated system. It's about a total solution for consumers. These kinds of direct models are doing well. But it's a challenge for traditional wholesale companies to transform into such a system. It requires investment in retail



— James Zheng,

networks, laying the foundation for e-commerce, establishing flexible and agile operations, and then connecting the elements for a true omnichannel experience. I think companies with a good direct model will have a strong competitive advantage in the future.

In this more digital future world, how do you see the role of the store?

Stores are still the place for consumer to get a direct connection with the brands. So actually, the store will become the showroom, create unique experiences for the consumers and helping them understand the values and identity of the brand.

Overall, I expect the role of stores to shift more towards brand experience. In the end, sporting goods companies do not only sell a hiking jacket or a pair of running shoes. It's also about the emotional bond between the brand and the consumer. I think physical shops are uniquely positioned to deliver this kind of value to consumers through physical contact, good communication, and experiences.

Many of the trends we discussed, such as a high share of e-commerce and more direct to consumer models, are already well developed in China. Do you think the world can learn from China in this regard?

It is true that China already had strong e-commerce platforms and infrastructures before the pandemic. And indeed, many international brands such as adidas and Nike are already using their China experience, especially around e-commerce, to innovate in the US and European markets.

ANTA Sports is a leader in China when it comes to e-commerce and direct to consumers. What sets you apart?

Especially in the e-commerce business, understanding the market demand and reacting quickly is key. Due to the verticalization of 40 percent of our production, our time to market for new shoes is around six weeks, compared to 15 to 18 months of our competitors. The reduced lead time is a key advantage to bring the right products to the right consumers at the right time.

We have built up this model with our own production capabilities over the past 30 years, while most of the companies in the market do not have their own manufacturing capabilities. Sourcing will become even more important in the future and it must be aligned with overall strategy. Strategic alliances and partnerships with key suppliers will be essential for the future, in order to respond quickly to market change and reduce lead times.

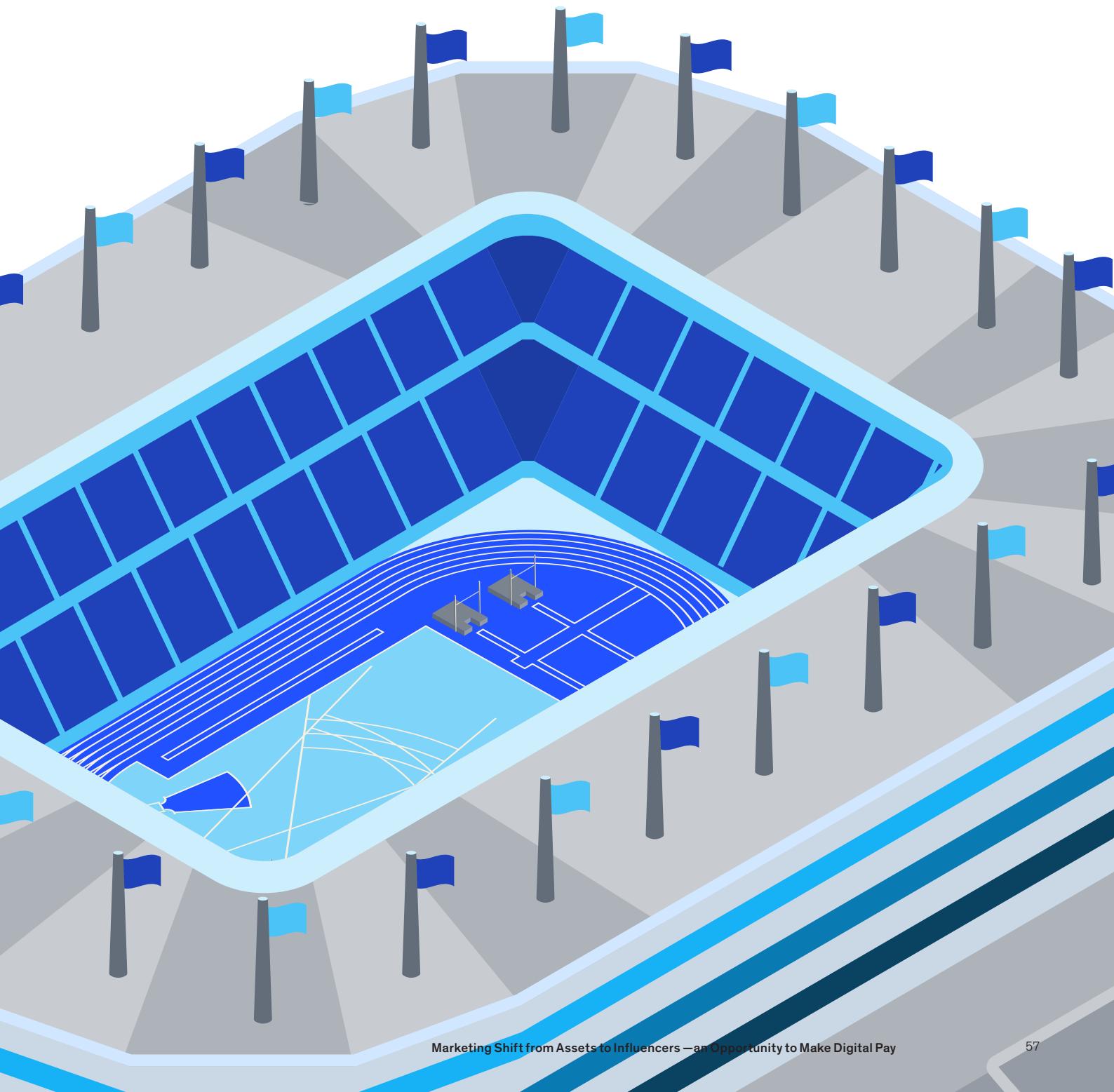
Our third advantage is our culture. We are a big company, but we have strong entrepreneurship due to our family business heritage. People at ANTA have a good mentality and the ability to adjust quickly to market change. I think these are the three main differentiators.

Marketing Shift from Assets to Influencers

— an Opportunity to Make Digital Pay



With sporting events cancelled, postponed or played in empty stadiums, and consumers spending even more time online, sporting goods industry players are shifting funds to digital marketing. To build awareness, credibility, and engagement (typically achieved via events), brands are working directly with individual athletes, who have a much longer reach than events or associations. However, athletes are role models, and consumers expect them to take a stance on topics important to them. Brands need to align with these messages.



“Grass roots approaches through young athletes and a human touch approach by showing the human side of athletes is the future of athlete sponsorship.”

—L. Collier, Chief Product Officer, Under Armour

Digital has not only changed where sporting goods brands spend their dollars, it has also changed how they spend them. In the past, the most important metric being the number of people who watched the event live or on TV. The traditional tool kit for sports marketing comprised of team kit sponsorship, A-boards, branded adverts, traditional media, licensed products, merchandising and naming rights. However, the marketer's armory has evolved following the growth of digitally-enabled direct-to-consumer models.

At the center of the digital universe is data, which provides information to brands on transactions, page views, and preferences. Data can also form the basis of direct content creation and fine-tune campaigns, meaning brands can adapt stories based on consumer responses, news flow, team results, or even the weather. Pre-COVID-19, brands used this marketing channel largely to drive immediate sales. Events were used to complement this channel to build

awareness, credibility, and engagement with the brand.

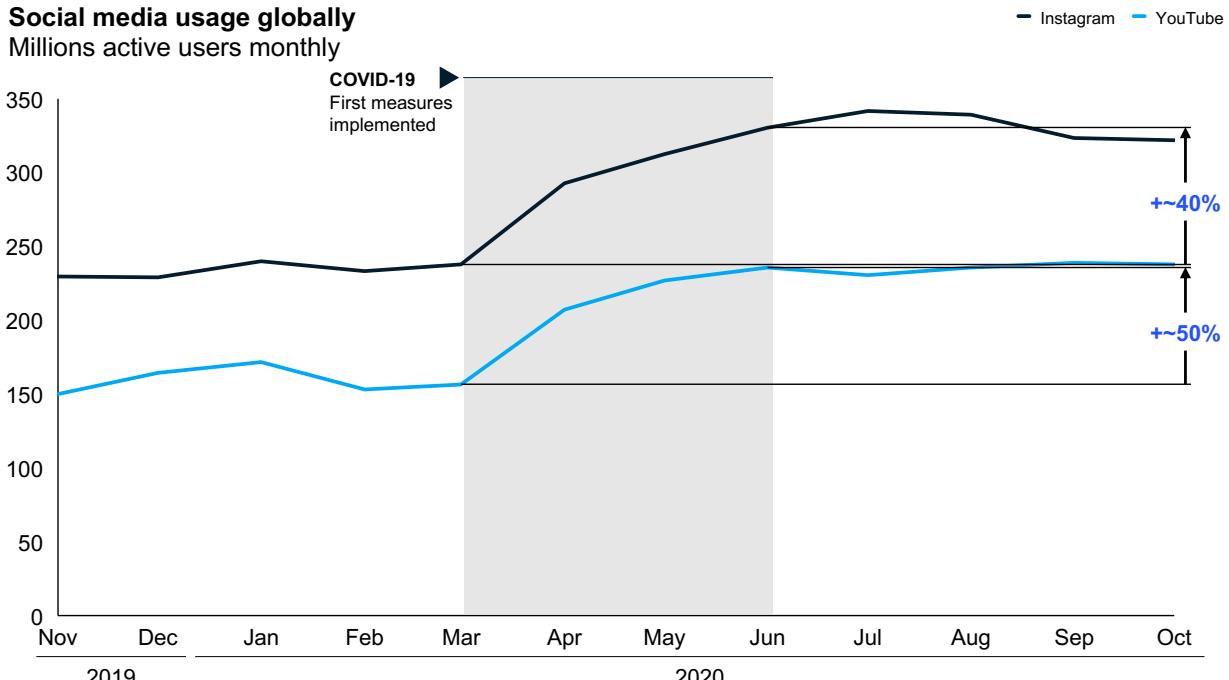
Digital demand was on an upward curve before the pandemic but has accelerated over the course of 2020. During the first three months of the outbreak, the number of active monthly users on Instagram and YouTube rose by 40 percent and 50 percent respectively (Exhibit 24). In a similar vein, the number of Instagram TV posts and stories rose by 74 percent and 31 percent respectively in the months following the outbreak. Long-form online content also attracted more readers.

COVID-19 has caused the suspension, postponement, and even cancellation of numerous sporting events that were previously hot spots for sports marketing. Events affected include the Olympic Games, the World Athletics Indoors Championship, the UEFA European championship, the Wimbledon tennis championships, and the Women's Baseball World Cup.

Exhibit 24

Driven by COVID-19, consumers spend more time online, making digital marketing even more relevant

Social media usage globally
Millions active users monthly

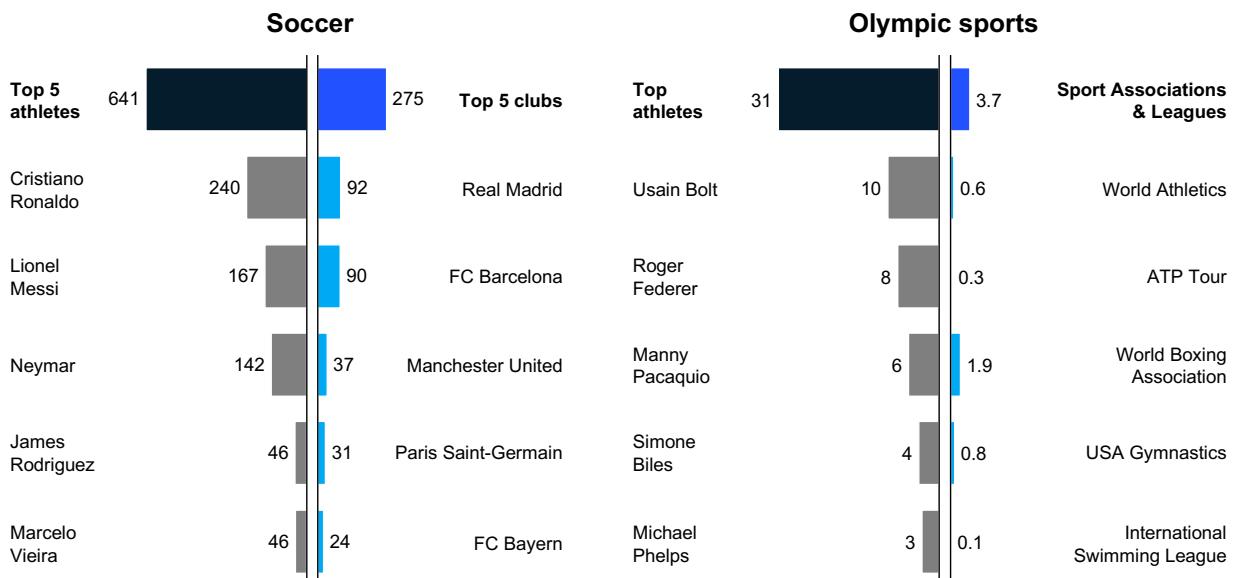


Source: Airnow data

Athletes can be marketing stars

Better reach of top athletes vs. clubs/associations/leagues

Million Instagram followers



Source: Instagram, Press search

“A big shift can be seen towards athletes that are able to drive content that has quality while making the product look good.”

— C. Salmini, Co-Founder & CEO, SHRED

The absence of these and many other events from the calendar has left a significant hole in brands' ability to build awareness, credibility, and engagement.

Industry participants expect that the shifts in channel strategies seen in recent months are likely to stick. Some 43 percent of respondents to the WFSGI and McKinsey & Company Sporting Goods Survey expect that sporting goods marketing will not be as closely linked with major sporting events in future, compared with just 29 percent that say the link will be maintained.⁴⁷ Conversely, some 64 percent expect the industry will focus more on digital advertising. Around half of respondents, meanwhile, cite the importance of data in campaign strategies, and a similar number highlight the growing importance of influencers, especially professional athletes, who are seen as superior marketing enablers than clubs, associations, and leagues.

Professional athletes across different sports not only have much larger social media following than (their) clubs and associations (Exhibit 25), they also achieve much higher engagement rates (Exhibit 26). This is especially attractive where companies are looking for impacts previously achieved via event marketing.

Brands understand the powerful influence of sports stars, and many have worked hard during the pandemic to maximize contacts between their customers and the stars they work with. Nike, for instance, launched 'The Living Room Cup'; a series of digital workouts led by athletes. adidas, meanwhile, ran a #HomeTeamHero challenge — a virtual sports and workout event in which the company tied charitable donations to hours of tracked activity. Lululemon also got involved, organizing live social media workouts under its 'Sweat' banner.

⁴⁷ WFSGI-McKinsey Sporting Goods Survey October 2020

“People want to feel part of something bigger; moving from individual product marketing to a bigger brand narrative is therefore essential.”

— A. Arana, SVP/General Manager Global Product - Training, Running, Core Apparel & Accessories, adidas

However, as marketing shifts from assets (e.g., events, teams, clubs, federations) to human beings, consumers' expectations are also evolving. Increasingly, in return for their engagement, consumers expect athletes to take a stance on issues that matter to them: 72 percent of sports fans believe that “athletes provide a unique view and are an important influence.”⁴⁸ For brands, this means they need to ensure that their own values are aligned with athletes' views and messaging. Naturally, this has inherent risks and requires vigilance. For example, ASICS terminated its sponsorship contract with Australian cricketers David Warner and Cameron Bancroft after a ball-tampering scandal in 2018. SHRED resigned from a collaboration with an ambassador after he promoted heli-skiing, which was in conflict with the company's sustainability agenda.

While there are risks in social messaging, there is also opportunity for brands to become involved in important issues, supporting causes they believe in and expressing these (brand) values in a powerful way. In some cases, brands have collaborated with athletes to take a stance on important political and social issues. American footballer

Colin Kaepernick, the protagonist of the ‘taking the knee’ movement, later worked with Nike on its 30th anniversary campaign. The company strongly supported Black Lives Matter, working alongside basketball star Lebron James, and earned plaudits for doing so. PUMA is another company engaging in social causes, engaging stars such as Lewis Hamilton and Thierry Henry in conversations about racism. In traditionally white NASCAR motor sports, Columbia Sportswear chose African American Darrell “Bubba” Watson as its brand ambassador.

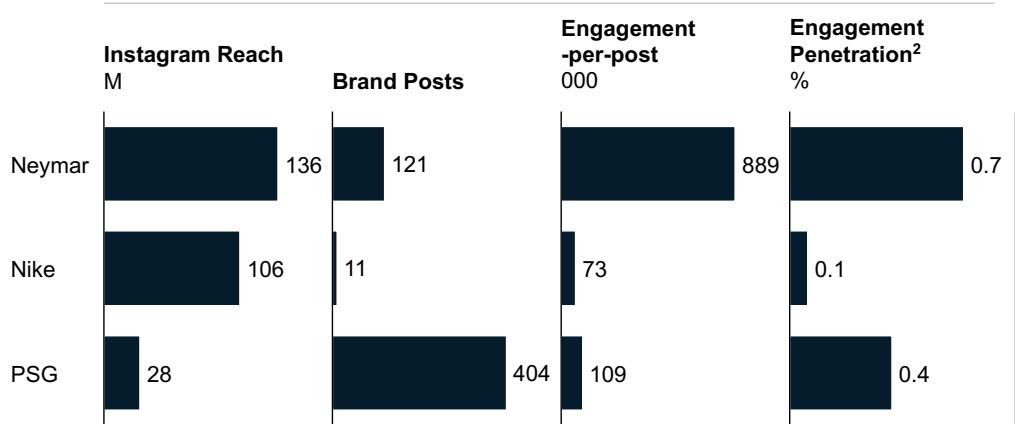
Relationships with athletes work especially well where athletes' positions are aligned with the brands', and the brand itself takes a stand on relevant issues. This kind of active support is often tied to an immediate uptick in sales, and many brands now highlight their commitment to causes in their marketing and wider corporate communications.

Exhibit 26

Neymar's personal Instagram has much more followers than Nike and PSG (all sponsored by Nike), and sees far greater engagement per post

Social media performance

Social media performance – Instagram¹



Neymar's followers are highly engaged versus both apparel and club brands, suggesting Instagram fans are more receptive and excited about posts when made by players

1. Data collected 1/1/2020 – 6/30/2020

2. Defined as (engagements/posts) / followers

Source: UnMetric

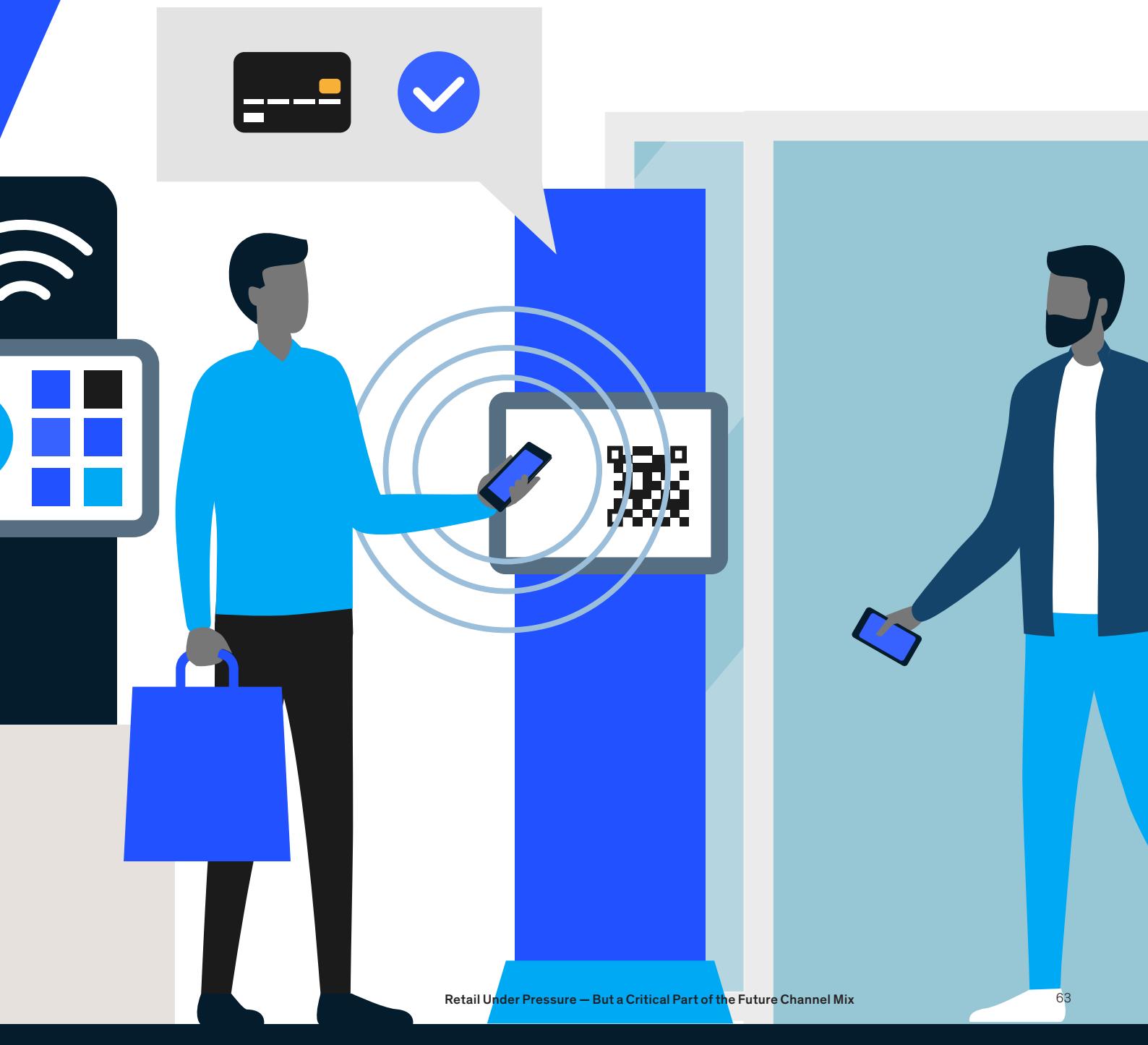
⁴⁸ Nielsen U.S. Promoting Racial Equality in Sports Study July 2020



Retail Under Pressure — But a Critical Part of the Future Channel Mix



Tales of woe in bricks and mortar retail have been par for the course over recent years, and COVID-19 has done nothing to relieve the pressure. However, retail stores will play an important role going forward, provided sporting goods companies can create a compelling omnichannel experience and offer additional benefits to shopping online.



“Stores are still the main area for the consumer to have a direct experience, and therefore this platform has to be used to build strong emotional bonding with consumers”

— J. Zheng, Executive Director and Group President, ANTA Sports and President and CEO, Amer Sports

Even before the pandemic, physical retail was struggling, leading to strategic rethinks among some major brands. adidas, Footlocker, and Nike have all reduced their physical footprints over recent years. Footlocker, for example, had 3,383 stores in 2015, but had trimmed its portfolio to 3,100 by the second quarter of 2020. Nike had 1,182 in 2018 but just 1,096 by the second quarter (Exhibit 27). The numbers confirm a trend of net negative openings that has become established over the past five years across the apparel, footwear, and accessories segment.

Since COVID-19, physical retail has faced additional challenges, including lockdowns, a loyalty shift among some consumers, who have felt empowered by digital to experiment with new offerings, and persistent health and safety concerns. The resulting pressure on in-store revenues has led in some cases to liquidity challenges, with several over-leveraged chains struggling to service their debts. The most affected have been those that have failed to transition from a physical footprint to develop their online and omnichannel offering. Not surprisingly, most executives expect the established trend to continue, with 45 percent predicting fewer stores over

“Click and collect is becoming more and more relevant for stores.”

— B. Margevicius, Executive VP, Specialized

the coming year, and just 7 percent anticipating an uptick.⁴⁹

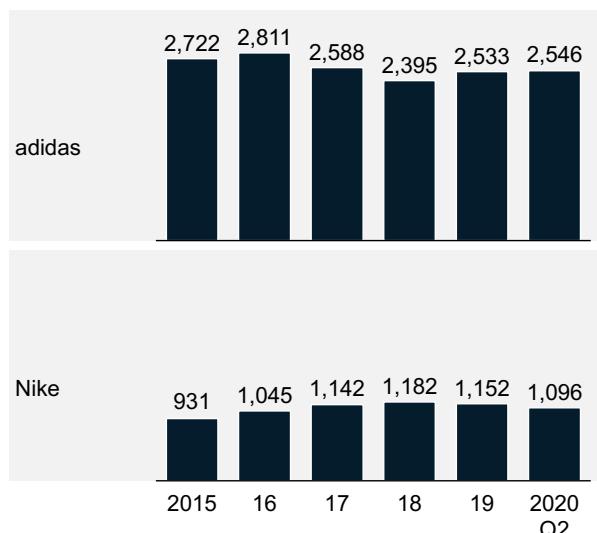
Going forward, physical stores are unlikely to be able to compete sustainably without incorporating some element of digital experience. This may comprise operational improvements to capture data, manage inventory and boost productivity, as well as customer-facing innovations such as mobile POS, personalized recommendations, and in-store fulfilment

Exhibit 27

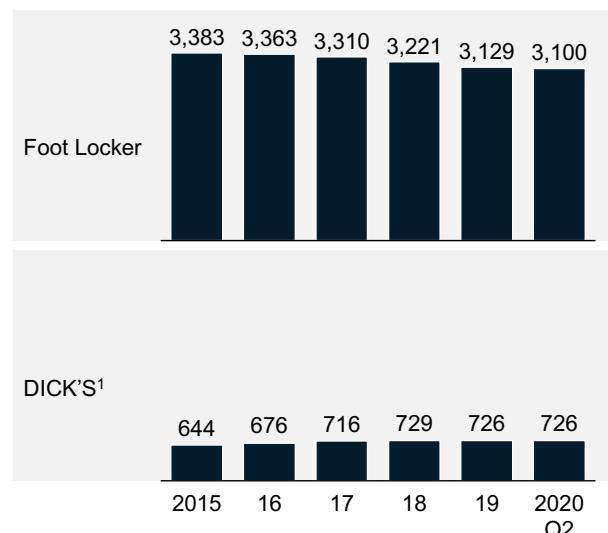
Store numbers have fallen over recent years

Number of stores

Sport brands



Sport retailers



1. DICK'S Sporting Goods only excl. Specialty Concept Stores

Source: Statista

⁴⁹ WFSGI-McKinsey Sporting Goods Survey October 2020

Stores can improve the customer experience and work better



All use cases require an integrated digital infrastructure backbone, including data and logistics management. Furthermore, P&L management and incentives need to be aligned between offline and online sales channels

Source: McKinsey & Company research; Press clippings

“Retail needs to have the technology that allows the consumer to understand whether or not they have exactly what they want.”

—J. Preston, CEO, New Balance

(Exhibit 28). With increased COVID-19-related barriers to visiting physical stores, consumers expect to find products available if they make the trip. Being able to “reserve” the crucial product online ahead of time will be an added benefit and might lead to unplanned in-store purchases.

In addition to seamless omnichannel integration, sporting goods companies need to offer clear and appealing propositions to attract consumers (back) to stores. Elements they may focus on include brand equity and the consumer experience, online fulfilment, category expertise, value offerings (where appropriate), immersive showrooms, and streamlined service offerings. Of course, any single store is unlikely to be able to represent all of these — instead, brands must identify formats and propositions that suit individual locations.

Brand equity and consumer experience. Consumers want stories that they can relate to, and stores need

to become stages on which those stories can be told. The most successful sporting goods companies have worked hard to elevate and animate the store experience. Many have located their flagship stores in premium locations and built super-sized spaces that combine aesthetics with brand values. Some have brought sporting venues in-house, incorporating running tracks, gym mats, and sports lockers. Several brands have aligned with the personalization trend, allowing customers to design their own products in-store. It is increasingly common to see high-tech applications such as body scans and instant check outs placed in strategic store locations.

Online order fulfilment. COVID-19 has led to a step change in digital commerce, and several brands have revamped their fulfilment capabilities to fit the new paradigm. DICK's Sporting Goods, which saw a nearly 200 percent rise in e-commerce volumes during the early part of the crisis, leveraged its store

network to manage fulfilment, aided by new curb-side pickup services.⁵⁰ The company's extensive store network was a key enabler, but decision makers ensured the initiative was supported by a strong technology backbone, leading to higher e-commerce profitability.

Category expertise. Specialists are thriving due to their ability to add value through product and sports expertise. In this model, sales assistants curate collections for individual customers, significantly differentiating the proposition from the average online experience. Companies such as Switzerland's Transa and Germany's Globetrotter pride themselves on being able to offer customers real-life experiences and insights to inform their purchasing decisions. They support these with in-store features including climbing walls, repair services, tailoring, and rental services, as well as self-care options such as orthopaedic advice. Some of Globetrotter's stores even offer water courses for canoe testing.

Value and clearance. Even before the pandemic, demand for value options and clearance items was rising fast. Several brands responded by opening factory outlets (adidas had 142 net openings in 2019 alone), often located in city suburbs.⁵¹ These offer significant discounts, in some cases helping brands access new customer segments. Outlets also provide an alternatives sales route for excess inventory. Such has been the success of the outlet model that several brands have moved some stores upmarket, offering a premium experience but retaining the value proposition to get rid of excess stock.

Immersive showrooms. Away from the bells and whistles of flagship stores, several brands have experimented with smaller, immersive spaces, which offer customers focused experiences in activities such as basketball, running, and soccer. Often equipped with courts and try-out areas, the stores are commonly staffed by real athletes, who offer expert advice to customers. Among trailblazers, Nike has launched a series of specialized Nike+ Trial Zones in major cities.

Service offerings. Sporting goods companies increasingly understand that consumers respond positively to enhanced service experiences. Where stores can offer recycling, repairs, or trading stations, in which old items can be turned into buying credits, consumers have reason to visit the store beyond purchase. As a result, the shopping journey becomes more valuable than in the simple transactional model, which could have taken place online. Patagonia is among those to have taken a lead. Decathlon's workshop stations, meanwhile, have helped differentiate its offering, and the company recently embarked on a program to promote circularity, enabling customers to recycle instore. Intersport benefits from its rental model, that continues to become more relevant in an increasingly sharing-focused economy.

“Retailers that are strongly ahead in digital and have cash to invest in in-shop experience will lead consolidation.”

— A. Arana, SVP/General Manager Global Product - Training, Running, Core Apparel & Accessories, adidas

“Service in retail stores will become much more important.”

— L. Collier, Chief Product Officer, Under Armour

Looking ahead, life on the high street will probably remain tough, but stores still have a role to play. In the wake of COVID-19 they need to create standout experiences, cater to changing customer needs, and artfully combine the best of human and digital. Leading brands have shown that the right combination can both tempt customers away from their devices and turn physical retail into a focus for innovation. However, the role requires significant investment — which not all players can afford. Consolidation should be expected.

⁵⁰ “Stores are ‘critical’ for Dick’s Sporting Goods’ booming ecommerce sales”, Digitalcommerce360, April 2020
⁵¹ Company financial reports

— Lisa Collier, Chief Product Officer, Under Armour

COVID-19 caused a massive shift to online and put retail under pressure. What do you think will be the longer-term effects?

The challenge of online has always been that, while it is preferable from a margin perspective, it's expensive – think shipments and return – and hence not always the most profitable channel. For online to work, it needs volume and velocity. The benefit of the past year's shock to retail and the massive shift

to online has been an increase in velocity online.

When it comes to physical retail there is an opportunity. In recent years, we all knew that we needed to shift to a more online-centric business. COVID-19 now forced us all to accelerate that shift. It has also forced everyone to really think about the role of physical retail. For the past 10 years these questions have been out there: "What are we going to do about retail? What is the role of the store?" – and now we are forced to find an answer.

What do you think will be the role of physical retail going forward?

First, let me say that physical retail is never going to go away. People want to touch and feel products. I think, however, bricks and mortar will almost become the supporting cast to the online

business. For example, retail's role as an inventory location will increase.

Furthermore, I think retail has a role to play in providing consumers with a unique experience, versus just piling a lot of inventory in the store and driving sales. This is still a relatively new trend, but it will become amplified. I do think there's a real opportunity to elevate the retail store experience and make it more entertaining and more fun for consumers.

Also, service and expertise will become a key differentiating factor. Being able to interact with the product and getting expert advice is a key reason why people make that trip to the physical store.

How do you see the combination of physical retail with the online world creating value for the consumer?

Of course, we all know about elements of omnichannel, including click-to-serve, click-to-collect, in-store online ordering through terminals or sales personnel. All of these are important and a must have. However, the real differentiator is the integration of retail, online, and product. Let me give you an example. At Under Armour, our connected shoes have been a real unlock. The shoes analyze your running behavior and provide you with personalized advice and coaching on how to run better. This has triggered massive engagement, and we have seen an absolute spike in purchasing and connectivity from these connected shoes back to our apps. At the same time, the information can be used by store personnel when people come into the store to buy their next running shoe. This is just one case where we definitely see the combination of product, online experience, and retail being able to create distinctive value for the consumer.



— Lisa Collier

Supply Chains — the Flexibility Imperative and a Raised Bar on Agility





The past year has put extraordinary pressure on supply chains: starting with lockdowns in key supplier countries and transportation disruption, followed by a significant drop in demand and then demand volatility. At the same time, digital has fueled a move away from wholesale business models and toward direct-to-consumer (DTC), while automation has reshaped the supplier landscape. Given these dynamics, sporting goods companies require bold strategies to future-proof their supply chains for the next normal.

“Sourcing flexibility and short go-to-market time is a strong competitive advantage.”

— J. Zheng, Executive Director and Group President, ANTA Sports and President and CEO, Amer Sports

Even before the COVID-19 pandemic, sporting goods industry supply chains were adapting to new business models and ways of working. The previous emphasis on wholesale-driven product cycles was being eroded by a more agile model focused on direct-to-consumer (DTC) demand trends in both retail and e-commerce. This translated into a need for shorter delivery times and higher levels of responsiveness to market trends. We estimate the DTC model vaulted forward by two years in the first months of the pandemic, with e-commerce advancing by as much as four years (Exhibit 28).

Higher online penetration calls for faster reaction times and more flexibility. Indeed, soaring online activity, and the resulting glut of data, has allowed companies to respond more swiftly to new demand trends such as mass personalization. By doing so, they have been able to create highly tailored items for specific audiences.

Under the traditional model, wholesalers were required to shoulder the burden of

demand volatility. Now, with DTC in the ascendancy, brands more often own the inventory, which means they are naturally more focused on aligning production with demand. In one extreme example, Zara achieves 12 inventory turns per year, selling 85 percent of stock at full price.⁵²

Another brand to have made the leap is Nike, which has seen its DTC sales rise to 35 percent of the total in financial year 2020, compared with 15 percent in 2010.⁵³ In revenue terms the 35 percent amounts to \$12.4 billion.

The net effect of these digitally-related trends is that companies have had to become nimbler, and produce smaller, more frequent product runs. Perhaps because of this shift, lead times have shortened, with Asian suppliers of large sporting goods companies moving initially from 120 days to 90, then 60, and often eventually down to 30 days.⁵⁴

In some cases, fashion goods companies have explored near-shoring and re-shoring options to reduce lead times even further, as well as mitigate shipping

Exhibit 29

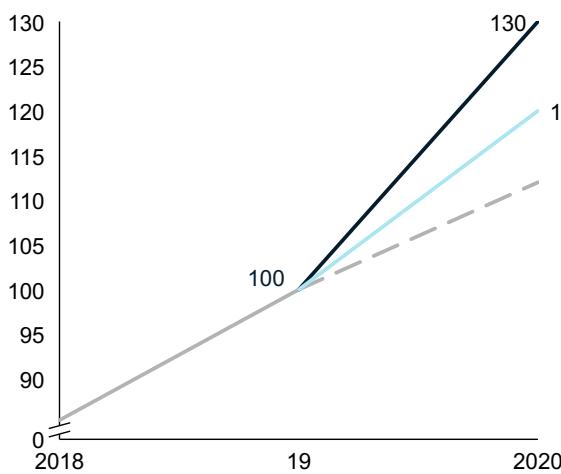
COVID-19 has accelerated online and D2C, emphasizing the need for agility

D2C was fast-forwarded by 2 years...

Estimation

Global B2C parcel volume forecast
Indexed to 100 in 2019

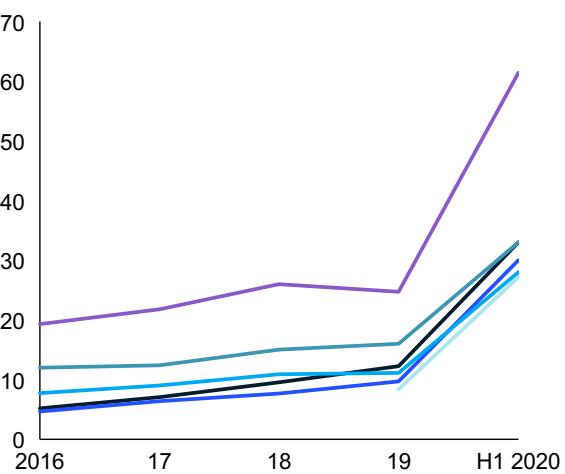
Pre-COVID-19 trajectory
Strong Scenario
Conservative Scenario



... driven by e-commerce fast-forwarded by 4 years

Online sales share

adidas
Nike
Lululemon
DICK'S Sporting Goods
Columbia¹
Skechers¹



Source: Exert interviews, Operators' annual and quarterly presentation, Forrester, Euromonitor International, IRI, German retail associations, McKinsey consumer sentiment survey, Press clipping

⁵² "Zara Clothing Company Supply Chain", SCM Globe, January 2020

⁵³ Company financial reports

⁵⁴ Various expert interviews

“Local production must be part of the strategy to become closer to consumer.”

— J. Preston, CEO, New Balance

uncertainty trade rule concerns. Indeed, some 62 percent of executives in one survey said they were considering local options, mindful that re-shoring can save as much as four to six weeks in lead times.⁵⁵ Many are also cognizant of rising labor costs in some markets (China's labor costs are now on a par with Mexico's and Eastern Europe's), and local sourcing is actually cheaper in some cases (Exhibit 29).

Automation is another reason to move production closer to home, and Zara is among companies to have invested in highly-automated facilities in its home market. Finally, governments are often keen to promote local production, and are willing to offer incentives and tax breaks to attract manufacturing to domestic markets.

Alongside exploring near-shoring options, sporting goods business leaders are keen to strengthen relationships with existing

suppliers. Indeed, some 73 percent say that they are focused on forging closer partnerships, probably with fewer counterparts. Some 60 percent predict consolidation in the supply chain over the coming period. A related emerging trend is co-location with suppliers, supported by bespoke and customized machinery, which can increasingly simply be sourced on timelines as short as one day.

The events of 2020 have accentuated and accelerated the above trends. First, supply chains were disrupted by a physical supply shock, with materials held up by sclerotic transport networks.

“Supply chain management will move from a single speed model towards a multi-speed-model with better use of data and analytics that will drive shorter lead times, improved service and reduced inventories.”

— C. Browne, COO, Under Armour



⁵⁵ WFSGI-McKinsey Sporting Goods Survey October 2020

— Industry disruption “Near-shoring is a way to manage increased volatility and reduced lead time.”

— J. Lemiere, Strategy Director Finance and Development, Decathlon

Manufacturing benchmarks (Purchasing Managers Indexes) fell off a cliff. After the initial shock, the market entered a period of high volatility, with demand subdued in some segments and soaring in others. Sporting goods retail sales, for example, see-sawed between a 50 percent decline and a 20 percent rise in the United States. Increased volatility put both financial and operational pressure on supply chains, in some cases leading to suppliers going out of business.

Looking forward, 2021 is expected to bring more of the same, amid continuing digital demand, high levels of uncertainty, and market volatility.

To make the most of the shifts in supply chain logistics and capabilities, decisions makers need to make bold decisions about how they want to play. If that means moving to near-shoring, they will require a different mindset and business model, and faster processes in relation to trend identification, production schedules, and supplier contracts.

Where existing supplier relationships are

set to continue, companies should move away from transactional relationships in favor of deeper partnerships that bring greater agility and accountability.

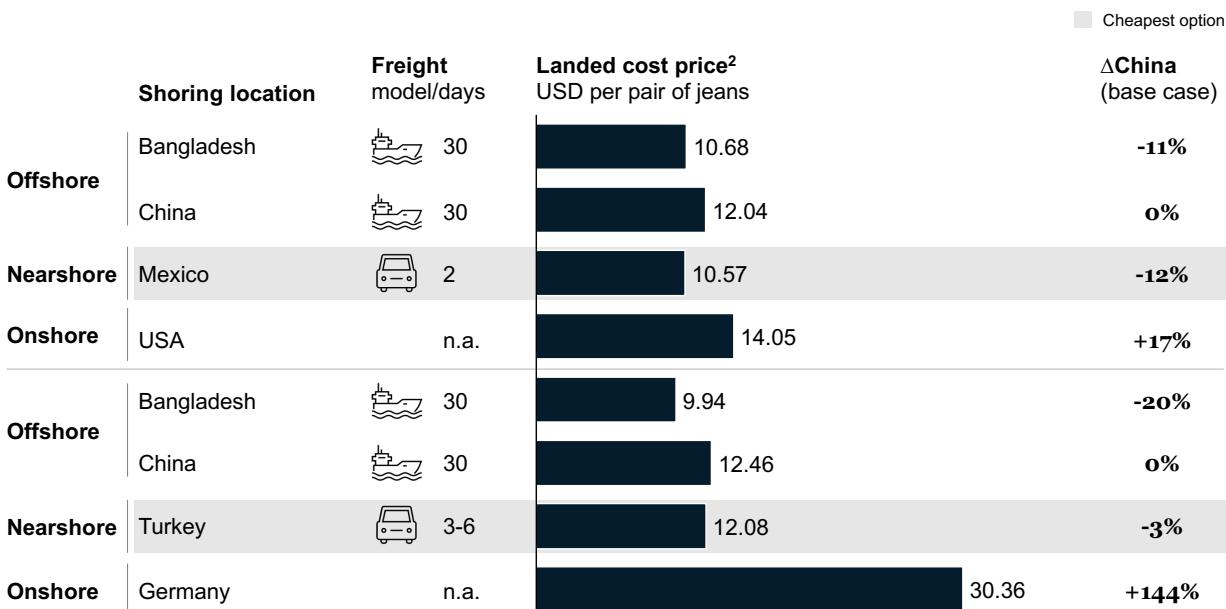
“Flexibility and close partnerships with suppliers and vendors will be key to navigating the uncertain times ahead of us.”

— C. Patel, Deputy CEO, Pentland

Exhibit 30

Local sourcing is already cheaper in some cases

Savings on freight and duties make nearshore alternatives cheaper than China
2016/2017's process and import duties, Jeans example



Today, even from a mere landed cost price perspective, nearshoring can be economically viable in certain cases, mostly due to savings in freight and duties.

1. EU destination port in Hamburg, Germany. US destination port on southern coast/Austin (nearshore), West coast/LA (offshore)

2. Assuming that fabric and other costs remain constant

Source: EUROSTAT: EIU: HIS: Xeneta: WITS; European Commission: McKinsey Cleansheet Solution; McKinsey analysis

— Dmitri Hu — Group Strategy Officer, Pou Chen Group / Yue Yuen Industrial

How would you describe the effect of COVID-19 on different parts of the value chain?

If we look at the industry from a value chain perspective, I would say that the closer the company is to the consumer, the more impact it will have suffered from the pandemic. So, retailers have been most affected, given that starting with the lockdown, consumer demand shut down immediately, only partly made up by online. The second most affected were the brands. As a tier 1 supplier — meaning that we deal with finished products — we also experienced the ripple effects. But as for tier 2 and 3 suppliers — meaning the raw material suppliers or some of the equipment suppliers — they were probably less affected.

How is COVID-19 impacting supply chains?

The COVID-19 pandemic is accelerating many trends in our industry. I think number one would be that retailers,

brands, and even suppliers are going to push for more local-for-local supply. I don't think supply chains are going to be 100 percent local-for-local. But given what's happening, we will try to localize as much as possible in terms of the raw materials, the management team, the labor, and marketing — to avoid travel of both physical goods and people. The reason why I don't think it's going to be 100 percent is because I don't think automation technology is quite there yet to cover the cost difference. So, the footwear supply chain in Asia will remain very competitive from a cost perspective. But COVID-19 has accelerated the gradual push. I think that localization will be the number one trend.

Second, we are going to see more volatility. Direct-to-consumer models, especially e-commerce, will require shorter lead times. This may require higher inventories with suppliers, which may result in more consolidation of suppliers and some smaller suppliers leaving the industry.

And finally, I think suppliers will push for more automation. The reason is quite obvious: we will need to ensure that we have ample and sustainable supply under a quite challenging operating environment.

What is your perspective on supply chain capacity needs in 2021?

After COVID-19 is controlled, we will see a very strong recovery in the consumer market, and so there will be supply shortage. Suppliers will then be crazily

expanding, hiring people, and buying more machinery. There will be large capex inflows to expand the capacity back to pre-COVID-19 levels. And then we may face a short period of equilibrium. Afterwards will again have overcapacity and of course eventually a new equilibrium. A similar situation happened after the financial crisis, but the financial crisis had less impact on the sporting goods industry. I would say this time it's more of an economic problem. But I think we will see the same cycle as after the financial crisis.



— Dmitri Hu

Winning in the Next Normal

In times of uncertainty, fortunes are more easily made and lost. Before the COVID-19 pandemic there was a momentum play that supported the large majority of sporting goods companies — a rising tide that lifted all boats. During the pandemic, and in its wake, a sharper business environment is creating a virtuous circle for some, but a vicious cycle for others.

Ahead of the pandemic, the sporting goods industry was characterized by performance reliability, with companies generally prospering irrespective of either their focus or the amount they invested in innovation. There was a gradual shift to e-commerce, but nothing that posed an existential threat. Indeed, established channels continued to perform, and even players losing market share were able to maintain or increase revenues (Exhibit 31). Still, in a sign of impending change, some players (for example, Lululemon and ANTA Sports) outperformed other sportswear brands in terms of revenues by aligning with key trends such as DTC and fast growth in Asia.⁵⁶

The impact of COVID-19 has been to reform the sporting goods landscape. Market contraction has put pressure on the bottom line, especially among those with extensive physical footprints, and a decisive shift online has exposed companies with weak digital and DTC propositions. Rising uncertainty has highlighted the need for agility, and undermined companies yet to make the transition to a more agile operation model. Suddenly, it became urgent to embrace digital and omni-channel, build more flexible supply chains, and connect physical retail with purpose. As a result, investment requirements have risen beyond the budgets of some companies — against the background of lockdowns and a shifting patchwork of government interventions.

In some cases, the impacts of the pandemic have been temporary, but in many instances, they appear to be permanent, creating a new imperative on how businesses should engage with their customers and run their operations. In a time of secular change, we see eight business characteristics that will define the winners of the future:

- 1. Strong presence in growing segments and sport categories.** We see the biggest areas of growth over the next three years in the women's segment, athleisure and China. These together will likely account for around two thirds of growth. Running and biking are also set to build on recent successes, reflecting a growing appetite for individual and outdoor sports.
- 2. An excellent DTC business model.** DTC has been the success story of 2020, with companies able to engage digitally with their constituencies best withstanding the worst impacts of the pandemic. Winning strategies going forward will likely embrace the DTC proposition, including own e-commerce offerings and DTC back ends. Companies will require digital expertise, faster development cycles, and seamless omnichannel services.

⁵⁶ Euromonitor International

3. **Direct connection to consumers through (digital) communities.** Reflecting the rise of digital, companies that have harnessed the power of communities have prospered during the pandemic, often replicating the atmosphere of the gym in peoples' own homes. The outstanding success of companies, including Peloton and Zwift, in 2020 suggests the trend will continue to play out. Winners will find ways to form or link into (digital) communities and connect them to direct sales channels.
4. **A purpose-driven retail footprint.** Physical retail has taken a battering in 2020, but the format still has the potential to play a valuable role. Companies that combine the best of digital and physical and create standout retail experiences are likely to perform best. However, the cookie cutter store formats of the past are unlikely to work. Instead, stores must be individual, innovative, and tailored to local priorities. Winners will give each store a clear purpose, whether it is brand experience, e-commerce showroom, or outlet.
5. **Credibility on sustainability.** Taking care in respect of the environment and labor rights has become table stakes in many markets. Two thirds of consumers consider the use of sustainable materials as an important factor when it comes to purchase decisions.

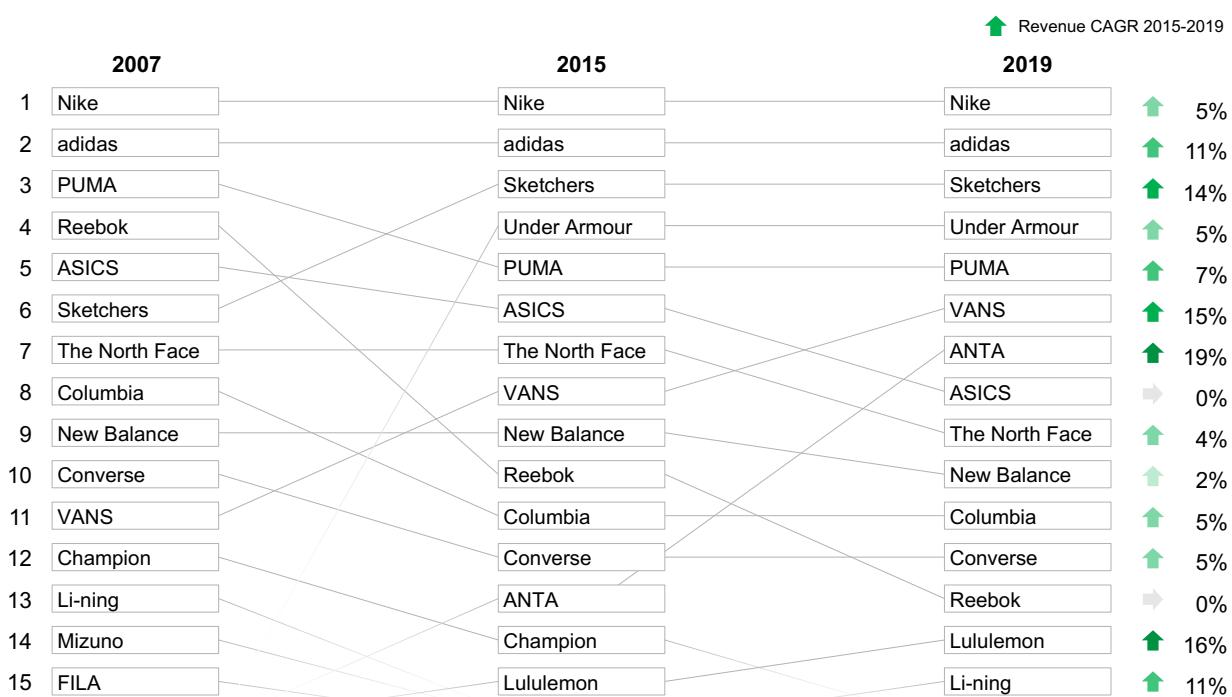
Ideally, companies should strive to reflect consumers' priorities as far as possible. At a minimum, they should ensure they are on a par with the industry. Winners will prioritize sustainable sourcing, either through materials recycled from other industries or recycled sporting goods materials.

6. **Revisited supply chain with built in agility.** Supply chain disruptions in 2020 were a challenge for brands and their partners. The winning business models of the future will be built on fewer, but stronger, supply chain relationships, combined with higher levels of local sourcing and automation —enabling faster reactivity as well as more drops and in-season adaptations — required for successful e-commerce/DTC.

Exhibit 31

Even players losing share have kept revenues constant or increased

Top 20 sportswear brands ranked by sales, 2007 vs. 2015 vs. 2019



Source: Euromonitor International

7. Sports marketing optimized for digital channels. The marketing budgets of the past were heavily focused on events and team sports. In future, winning companies will put more emphasis on individual athletes and digital channels, forging personal relationships with individuals.

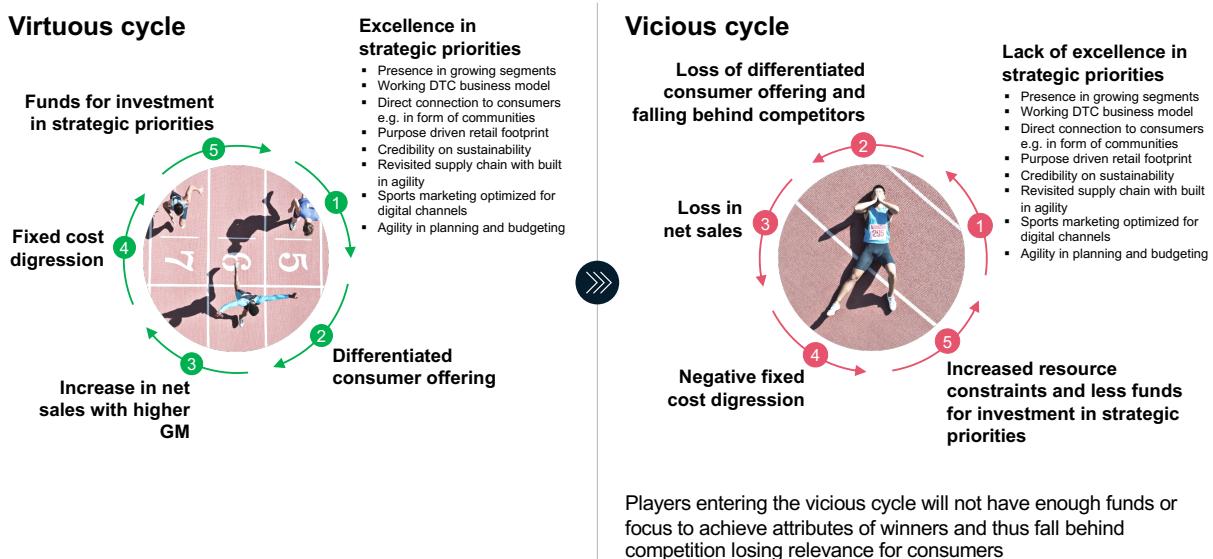
8. Agility in planning and budgeting. Given rising uncertainty, winning companies will look to remain as flexible as possible. This will enable them to respond to shifting market conditions and react more speedily to unexpected events.

Given the post-COVID-19 menu for success, which sporting goods companies are most likely to win in the next normal? Certainly, those that are already in pole position are well placed. Indeed, top brands are already taking a lead, and can be expected to bring sufficient firepower to continue to perform. In addition, new entrants that have built their businesses around DTC models are set to prosper and should fit neatly into the more digitally-focused post-COVID-19 world. Equally, niche brands with distinct positioning are likely to thrive, particularly where they can outcompete on issues such as sustainability, or hot categories such as athleisure. Fashion brands may also do well in the athleisure space, as has been evidenced by recent performance.

In the supply chain, meanwhile, manufacturing partners that work hand in hand with brands, while embracing new ideas around sustainability and circularity will be best placed. Equally, multi-location manufacturers that can serve brands under local-for-local models will pick up business.

Exhibit 32

Players with attributes of winners will enter a virtuous cycle –players without may find themselves falling behind in vicious cycle



Of course, in a time of change there will be both winners and losers. Players that are slow to align with the trends reshaping the industry are likely to suffer, particularly where they do not invest in new business models such as digital and DTC propositions. Small-to-medium sized players with limited funds are probably in danger, given the requirement for investment in areas such as omnichannel and store upgrades. Given the emergence of DTC, there will be an imperative to attract consumers directly, suggesting companies without a strong brand presence and clear positioning will likely struggle to gain traction. Furthermore, amid much faster fashion cycles, there is likely to be more jeopardy in the design process. Players that gamble on new designs but consistently fail to catch consumers' imaginations are likely to face consequences. Finally, while the impact of COVID-19 is likely to fade in 2021, life will be different in future. Brands that are unable to operate effectively, either due to market conditions or government interventions, will face tough times in the year ahead.

Given the range and complexity of demands on the industry, there is likely to be a sharper separation of winners and losers. We expect that players that can align with the dynamics shaping the industry will create a virtuous circle: Winning strategies will produce a differentiated customer proposition that will lead to higher net sales and increased gross margins. These in turn will enable fixed cost degression and the freeing up of funds for investment. Those caught in vicious cycles, conversely, will fail to achieve strategic alignment, leading to a lack of differentiated offerings, lower sales, negative fixed cost degression, and less funds available for investment. Of course, any situation can be turned around, but the message for decision makers is clear: The choices they make now will be decisive for their businesses in a reformed post-COVID-19 landscape.

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